Advancing the business of

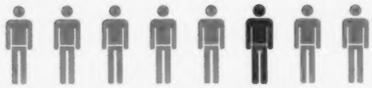
agriculture

2010-11

ANNUAL REPORT

Agriculture is vital to the Canadian economy, providing

1 in 8 jobs

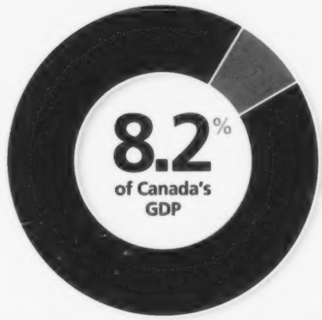


Each year, agriculture and agribusiness contributes

$130 BILLION

to the Canadian economy

Agriculture accounts for



Canada exports agriculture and agri-food products to

197 countries

Farmers

Suppliers

Processors

Transporters

Grocers

Restaurant workers

2.1 MILLION

Canadians bring food to tables throughout Canada and the world

We believe

in the strength of Canadian agriculture

Canadian agriculture is a highly complex, integrated and globally competitive industry. It is a vital and vibrant component of the Canadian economy that provides one in eight jobs, employs two million people and accounts for 8.2% of Canada's total gross domestic product.

Agriculture and agri-food spans the full value chain, from the farm input and service suppliers who serve farmers, to the food and beverage processing, food distribution, retail, wholesale and food service industries.

Working within a dynamic business environment influenced by currency risk, human resources challenges, evolving consumer trends, price volatility, globalization and many other factors, today's farmers and agribusiness operators are rising to the demands and opportunities of a rapidly changing industry.

FCC proudly stands for the future of Canadian agriculture, working with producers and others involved in the value chain. Every day, our 1,500 employees from coast to coast work on advancing the business of agriculture and helping customers succeed.

We develop products and services to meet the specialized needs of the industry. In addition to financial products (including insurance and leasing), we reinvest profits in learning events and knowledge, software and tools that help those who dedicate their lives to agriculture enhance their management practices.

We give back to the communities that our customers and employees call home by supporting local projects in every region of Canada, including food banks, rural enhancement and safety, and education about agriculture through targeted programs and funds.

We help customers and communities through challenging times. When the ground is too wet for crops to grow or too dry for them to mature, through bovine spongiform encephalopathy (BSE) and avian flu, when prices are volatile and sectors are experiencing a cyclical downturn, we're there to support our customers.

We believe in the strength of Canadian agriculture to expand and grow, and continue to evolve as a mainstay of our economy.

We are advancing the business of agriculture

Operational and financial highlights 3
Corporate profile 4
Message from the President and CEO 6
Message from the Board Chair 8
Message from the Agriculture Minister 9
FCC and public policy 11
Corporate governance 15
Board of Directors 20
Executive Management Team 22
FCC Rosemary Davis Award 23
Corporate social responsibility 24
Management's discussion and analysis 28
Financial statements 82
Glossary 129
FCC office locations 132

The FCC

customer value proposition

FCC proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959.

We focus on the primary producer as well as suppliers and processors along the agriculture value chain. We provide our customers with flexible financing, equity, insurance, management software, information and learning.

These services help our customers make sound business decisions and experience greater success.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it. We love it.
We're in it for the long run.

Operational and financial highlights

In 2010-11, industries around the world continued to deal with the impact of the global financial situation, and agriculture was no exception. FCC remained focused on its strengths – commitment to agriculture, knowledge and expertise, flexible and customized solutions, and consistent delivery of an exceptional customer experience. FCC remained financially sustainable in 2010-11, with growth in loans receivable of $1.6 billion or 7.9%.

The number of loans disbursed was 42,021 in 2010-11 and the average size of the loans disbursed was $146,432, resulting in net disbursements of $6.2 billion. Equity continues to grow as FCC generates positive net income. Growth in net interest income was $128.6 million. As the financial results indicate, FCC continues to build a strong financial foundation, which will help ensure continued funding for growth and investment in agriculture.

For the years ended March 31

Operational Highlights

	2011	2010	2009	2008	2007
Loans receivable portfolio					
Number of loans	120,070	114,439	106,867	98,066	101,470
Loans receivable ($ millions)***	21,334.5	19,770.4	17,098.5	14,992.1	13,550.4
Net portfolio growth (%)	7.9	15.6	14.1	10.6	10.1
Loans receivable in good standing (%)	97.9	97.7	97.5	97.4	97.4
New lending					
Number of loans disbursed	42,021	41,418	31,037	32,561	28,684
Net disbursements ($ millions)	6,153.2	6,585.6	5,068.4	4,285.0	3,714.7
Average size of loans disbursed ($)	146,432	159,003	163,302	131,600	129,504

Financial Highlights

	2011	2010	2009	2008	2007
Consolidated balance sheet ($ millions)					
Total assets***	21,910.1	20,286.3	17,802.7	15,470.5	13,834.2
Total liabilities**	19,141.5	17,941.2	15,519.2	13,693.5	12,372.1
Equity**	2,768.6	2,345.1	2,283.5	1,777.0	1,462.1
Consolidated statement of operations ($ millions)					
Net interest income	738.5	609.9	508.0	434.4	415.5
Provision for credit losses	27.9	91.4	70.0	5.0	38.9
Other income	16.0	10.3	6.2	14.4	7.7
Administration expenses	270.8	255.2	231.4	197.6	180.5
Fair value adjustment*	3.4	6.6	(1.7)	(41.1)	0.0
Net income**	459.2	280.2	211.1	205.1	203.8

*The fair value adjustment was introduced in 2008 as a result of changes to the accounting standards related to financial institutions
**Total liabilities, total equity and net income have been adjusted to reflect the current presentation of non-controlling interest
***Loans receivable, total assets and total liabilities for 2010 have been restated as a result of a prior period adjustment

The average hen produces 300 eggs a year.

Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Minister for the Canadian Wheat Board. Our corporate office is located in Regina, Saskatchewan. We provide financing and other services to primary producers, value-added operators, suppliers and processors along the agriculture value chain. Operating from 100 offices located primarily in rural communities, our 1,500 employees are passionate about the business of agriculture.

Our roots date back to 1929, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1959, the Farm Credit Act established FCC as an agent Crown corporation named in Part 1 of Schedule III of the Financial Administration Act, making us the successor to the CFLB.

In 1993, the Farm Credit Corporation Act was proclaimed into law, providing an expanded mandate and broader lending and administrative powers. Under the new mandate, FCC could provide financial services to farming operations, including individuals, farming corporations and farm syndicates under the authority of one Act.

In 2001, the Farm Credit Canada Act received royal assent, allowing us to offer an even broader range of services to producers and agribusiness operators.

Vision

Visionary leaders and trusted partners in finance and management services tailored to agriculture – leveraging our people's specialized knowledge and passion to create an extraordinary customer experience.

Mission

To enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

Corporate values

FCC's corporate values represent our core beliefs:

Focus on the customer

We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity

We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Work together

We believe in the power of teamwork. We work together with customers to design services tailored to their needs. We partner with other organizations to benefit our customers.

Give back to the community

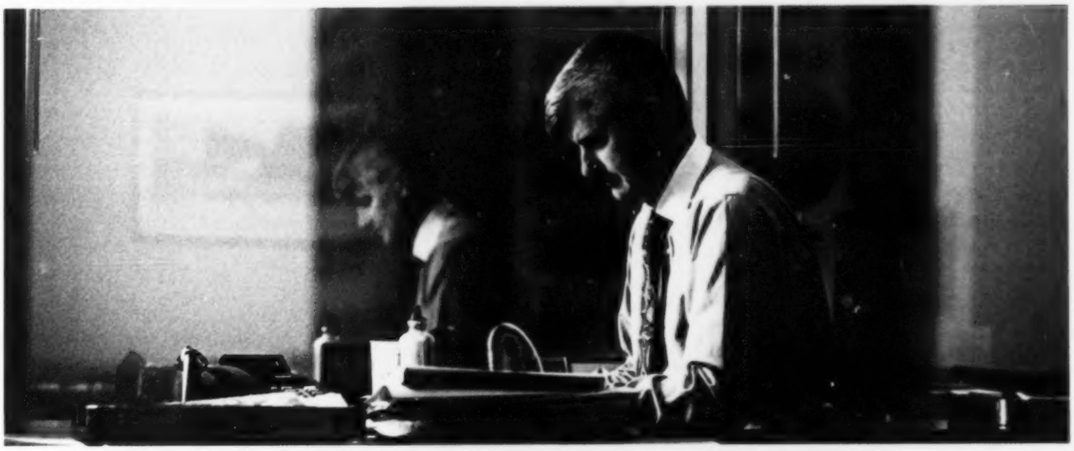
We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieve excellence

We are committed to one thing – the success of the Canadian agriculture industry. We always set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees achieve their potential.

Wheat, hay and canola are the top three crops grown in Canada.

Message from the President and CEO



It is a privilege to lead an organization that serves such an important and vibrant industry. The Canadian agriculture and agri-food industry is modern and internationally competitive. It provides one in eight jobs and contributes over 8% to this country's gross domestic product. Canada is the fourth largest exporter of agriculture and agri-food products in the world, with exports valued at $35.3 billion and imports of $28.1 billion. Agriculture is a huge industry.

On the global front, the economy is slowly improving, leading to increasing demand for agriculture and agri-food products. Market volatility continues to be an important factor as consumer demand has increased and production issues in Canada and other parts of the world have reduced supply. This, in turn, resulted in stronger commodity prices in the latter half of 2010. Grains and oilseeds as well as beef and pork prices increased due to strong demand and increasing profitability in these sectors. Profits for dairy and poultry producers remained stable. Excessive precipitation in parts of Western Canada presented unprecedented challenges for crop and forage production. FCC responded by implementing a customer support program to assist producers affected by this situation.

Despite the challenges, we believe there are opportunities and the future looks bright for agriculture – a view that is shared by many in the industry. Three-quarters of the 9,000 producers and agribusiness operators we surveyed believe that their operations will be better off in five years. Their expectations for future growth are also higher. Producers and other agribusiness operators are innovative and forward-thinking. They have to be in order to run businesses that face unrelenting complexities – from commodity, disease and weather risk to food safety and traceability, global economics and human resources management. This industry is not for the faint of heart.

FCC is proud to be the only financial institution in Canada focused exclusively on the agriculture value chain. We are committed to helping our customers achieve their goals through good and challenging times. Our customers range from traditional agriculture (such as dairy, beef, hogs and grains and oilseeds) to wine producers, greenhouses, value-added agribusinesses, food processors and manufacturers. Each are industries in their own right that are very different from each other in terms of how they are impacted by market forces, regulations and consumer demands. Customers and stakeholders often tell us that they appreciate FCC's commitment to the industry through its various cycles and our understanding of its complexities.

Our purpose is to enhance rural Canada by providing specialized and personalized business and financial services and products that address all of these unique

aspects of agriculture. We provide access to capital to all parts of the country, to all agriculture-related industries and sectors, all the time. Our products and services are tailored to the unique needs of agriculture and agri-food, including a new generation of producers: young farmers.

We believe the future of farming depends on our ability to attract young farmers with the skills needed to take over farms and other agribusinesses. Close to 8% of Canadian farms across all sectors are run by young farmers. FCC supports them at every stage with financing, learning opportunities and more. In 2010-11, young farmers borrowed $1.6 billion from FCC to finance their dreams. Agriculture is a dynamic and progressive industry that needs our best and brightest. The more they flourish, the more they build a solid future for the industry.

Another way that we advance the business of agriculture is through our learning programs. We know from experience that management sophistication makes or breaks the success of businesses involved in agriculture. That's why we reinvest profits to develop the important management skills they need to navigate today's rapidly changing marketplace. We support them by sharing relevant information and knowledge through workshops, seminars, forums, and various publications and tools – all of which are offered free of charge, whether the participant is a customer or not. Last year, we hosted more than 85 educational workshops across the country on a number of timely topics, ranging from managing farm finances to succession planning.

We also think it's important to demonstrate our continued support for the rural communities where our customers and employees live and work. In 2010-11, the national FCC Drive Away Hunger program raised over 1.7 million pounds of food for Canadian food banks. This was a record for the program, and, more importantly, it went directly to food banks in your area. Together with our community partners, we are happy to make a difference. That's what this program is all about.

Every day, we rely on our employees to deliver these products and services – to make a difference to Canadian agriculture. We hire for expertise and attitude, and then offer comprehensive development plans, including coaching on very specific behavioural expectations. We are proud to be one of the top 50 employers in Canada. Our employees are highly engaged, want to stay at FCC and do their absolute best. We know agriculture inside out. In short, as so many customers and stakeholders tell us, we "get" agriculture.

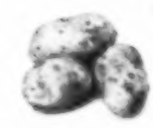
We measure our success by what our customers say about us. It is not an overstatement to say we love our customers, and I'm happy to say that they love us back. Six out of 10 FCC customers give us perfect scores when we poll them on various aspects of the customer experience. And, when our customers are successful, we are successful. With 100,000 customers and 18 consecutive years of growth, FCC is strong and stable. In 2010-11, the FCC loan portfolio grew to $21.3 billion from $19.8 billion in 2009-10. A total of $6,153 million in disbursements was extended to over 31,565 customers across Canada. New lending to the industry exceeded $5 billion.

A trustworthy and stable financial partner that understands the business of agriculture has never been more important. We are very proud to work with the people involved in this industry. Agriculture is more than a career. Those who work in the industry manage complex operations. They are resilient, agile and innovative. They respond to changing consumer demands, advances in technology, integration and globalization. They build strong relationships with employees, suppliers along the value chain, government, trade associations and stakeholders to get their goods and services to market. They recognize that they are a part of something big, and they passionately give it their all each and every day.

At FCC, we know the industry and we love it too. We're here to support our farmers and other agribusinesses and help them succeed every step of the way.

Greg Stewart, President and CEO

Canada produces
4.41 million tonnes
of potatoes a year.



Message from the Board Chair

Agriculture is a very important contributor to the Canadian economy. Dynamic, integrated and constantly changing, agriculture businesses are innovative and span the full value chain. From inputs and primary agriculture to processing, this industry is vibrant and growing.

FCC serves Canadian agriculture by giving back to the industry in ways big and small. This year, FCC approved more loans to young farmers, offered more learning events to producers and agribusiness operators and provided support to rural communities.

Today's producers work within a complex industry. They keep pace with technology changes and equip themselves with the most up-to-date information, programs and tools. FCC's highly trained staff and customized loan products and services for agriculture make FCC a perfect choice to serve the industry's financing needs.

FCC reports to Parliament through the Minister of Agriculture and Minister for the Canadian Wheat Board. The corporation's mission is to enhance rural Canada by providing specialized business and financial services to the full agriculture value chain.

I am very proud to serve on the FCC Board with my fellow Directors. The Board provides strategic direction and holds management accountable for demonstrating transparency, accountability and ethical conduct. We ensure that FCC fulfils its mandate in the best interest of farmers and agribusinesses, as well as the organization. We also ensure that as a Crown corporation, FCC acts in the best interest of all Canadians.

I've met many FCC employees throughout my term as Board Chair. Their dedication to our customers, passion for agriculture, knowledge and enthusiasm are second to none. On behalf of the Board, I thank them for their work.

I am confident that the year ahead will see FCC continue to play an instrumental role to advance the business of agriculture.

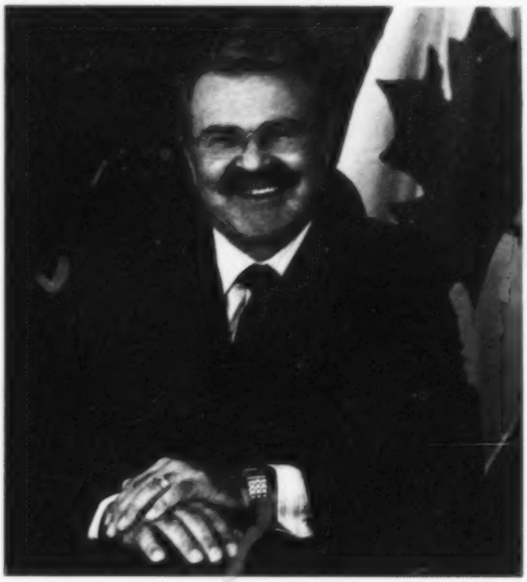
Respectfully submitted on behalf of the Board of Directors,

Gill Shaw

Gill O. Shaw, Board Chair

Soybean oil paint
is non-toxic and
environmentally friendly.

Message from the Agriculture Minister



Canada's agriculture industry fuels economic growth, creates jobs and feeds families here in Canada and around the world.

The Government of Canada is committed to supporting the growth and prosperity of agriculture. Farm Credit Canada (FCC) shares in this vision as it continues to serve an increasingly complex industry by providing financing and loan products tailored to the unique needs of its customers. Fair interest rates, an unwavering commitment to producers, and investments in new knowledge and management skills make FCC an essential player on the agriculture landscape.

I congratulate FCC on its 18th consecutive year of growth and its work advancing the business of agriculture, and serving the communities where its customers and employees live and work in all regions across Canada.

In addition to serving farm families, each year, FCC partners with schools, businesses, community groups and customers to fight hunger in our country. FCC Drive Away Hunger is recognized as a leading program that raises support for Canada's food bank community. Since 2004, the program has collected over 5.2 million pounds of food to help feed people in need.

Through the FCC AgriSpirit Fund, the corporation awarded $1 million in funding in 2010 for 104 capital projects that enhance rural communities.

Recognizing that young farmers are the lifeblood of a healthy, vibrant industry, FCC offers support to help them succeed.

Our Government is proud of the great work and valuable commitment that FCC and its employees make each day to the success of Canadian agriculture.

Together, we look forward to another productive and profitable year.

Gerry Ritz, Agriculture Minister

FCC and public policy

Statement of priorities

FCC supports the federal government's vision of a profitable agriculture industry that seizes opportunities, responds to market demands and contributes to the health and well-being of Canadians.

The Minister of Agriculture has established the following priorities to ensure FCC continues to strengthen the agriculture industry:

- Continued attention to maintaining FCC as a self-sustaining Crown corporation. In this time of economic recovery, it is vital that FCC continues to make its full range of credit products available to the agriculture industry in Canada. Access to short-term credit, long-term mortgages and venture capital is essential to the viability and success of the entire agriculture value chain. FCC interest rates should be competitive with those offered by other financial institutions – neither the lowest nor the highest, in order to serve as a fair participant in the agriculture financing marketplace. FCC should continue to work with Business Development Bank of Canada and Export Development Canada to ensure agribusinesses in Canada have access to a range of financial services that will allow them to grow, diversify and expand, both within and outside of Canada.
- Continued support for renewal in agriculture. FCC should continue to work with young farmers to offer products that will help them get established and that will help the intergenerational transfer of family farms throughout Canada. Working with stakeholders and in collaboration with Agriculture and Agri-Food Canada (AAFC), FCC should continue to offer unique business services, workshops and learning forums, as well as publications and educational offerings tailored to the particular needs of producers and agribusiness operators. Continuing to hire and develop employees who are passionate and knowledgeable about Canadian agriculture is also important to this renewal.
- Continued presence as a socially responsible corporation. FCC should continue to assist producers and agribusiness owners in an increasingly green economy, including through products like the FCC Energy Loan. FCC should play an important role in promoting sustainable environmental practices and food safety by supporting traceability in the agricultural supply chain through products such as its Field Manager PRO software. FCC should also continue to provide environmental information to its customers and continue to fulfil its obligations under the Canadian Environmental Assessment Act by conducting environmental assessments. In keeping with other areas of the federal government, FCC should also pursue strategies to reduce its environmental footprint.
- Increased collaboration with AAFC on policy and programs. FCC should increase its collaborative efforts with AAFC on key issues impacting the sector, including the design and development of the next policy framework to succeed Growing Forward. FCC also should continue to provide advice and expertise to AAFC in regard to sector-specific issues and programs, such as the Hog Industry Loan Loss Reserve Program.
- FCC continues to be well managed. Financial systems and accountability measures ensure the effective use of public funds, and that stakeholders and the public are served by a skilled, motivated and representative workforce. Budget 2010 set out a clear direction regarding spending restraint, including a freeze in operating expenses at 2010-11 levels.

There are nearly a million dairy cows in Canada.

We stand for the future of Canadian agriculture

Through the Growing Forward policy framework, federal, provincial and territorial ministers have committed $1.3 billion for non-Business Risk Management (non-BRM) programming between 2008 and 2013. This programming includes food safety, biosecurity, traceability, sustainable management practices, business development, innovation, commercialization and automation.

In addition to cost-shared programs delivered by provinces and territories, Agriculture and Agri-Food Canada (AAFC) has also committed over $1 billion in federal funds over five years to federal initiatives. Business Risk Management (BRM) programs include:

- AgriInvest, a savings account for producers, providing flexible coverage for small declines in income and supporting investments that help to mitigate risk or improve market income
- AgriStability, a margin-based account, providing income support when producers experience larger income losses
- AgriRecovery, a disaster-relief framework, providing rapid assistance when producers experience small disasters
- AgriInsurance, includes existing production insurance and other products, will expand to include other commodities

We are proud to serve all of agriculture, all the time – all sectors, all across Canada

FCC's public policy mandate

FCC enhances rural Canada by providing specialized and personalized business and financial services and products to family farms, farming operations and small- and medium-sized businesses related to farming.

Our public policy role is the foundation of everything that we do to advance the business of agriculture. With over 100,000 customers* nationwide, we help producers and agribusiness operators succeed in an increasingly complex and demanding industry.

FCC provides financing to producers of all ages and agriculture operations of all sizes across all sectors. We loan money to agribusinesses, including suppliers and processors that serve producers. A healthy value chain provides producers with more stable purchasing and selling options.

In 2010-11, 37,891 customers received loans or other financial products through one of FCC's 100 offices, located primarily in rural areas across Canada:

British Columbia and Alberta – 10,107
Saskatchewan and Manitoba – 11,971
Ontario – 10,571
Quebec – 3,812
Atlantic – 1,430

Among these customers, 36,035 are primary producers and 1,856 are agribusiness and agri-food operators.

We are dedicated to agriculture and take the long-term view

FCC is a profitable, financially self-sustaining commercial Crown corporation. Our strong financial position enables us to create innovative products and services that are tailored to the dynamic needs of the industry and ensure that producers and agribusiness operators have choices in the marketplace.

Our loan products recognize that agriculture is a cyclical industry and that it takes time for business operations to flourish. Unpredictable weather and market conditions can negatively affect even the best producers and agribusiness operators. We support our customers through highs and lows.

Canada exports pork to over 143 countries.

*FCC currently has 100,000 customers. The customer number has been restated to include all customers with an active loan balance who are primary borrowers, co-borrowers or guarantors for personal and corporate loans, including primary production, agribusiness and agri-food, and alliances.

Our customer support strategy helps producers manage when unexpected challenges arise.

This year, we provided support for hog customers across Canada and crop producers in Alberta, Saskatchewan and Manitoba who were affected by excess moisture.

We are visionary and operate our business in a sustainable manner

FCC offers unique products and services to help young farmers and agribusiness entrepreneurs succeed in a sophisticated marketplace that continually evolves.

We believe that knowledge is vital to the success of our customers and the industry. We offer workshops, publications and learning forums across the country, and encourage employees and customers to share insights and information.

Our corporate social responsibility framework focuses on customers, the environment, employees, community and agriculture and food.

To support our commitment, we offer environmental information and products to our customers, hire and develop employees who are passionate and knowledgeable about agriculture, give back to the communities where our customers and employees live and work, and we are working to reduce our corporate environmental footprint.

FCC supports young farmers with customized loan products and special initiatives such as Business Planning Awards, 4-H partnerships, FCC Learning workshops and tools like FCC Management Software. In 2010-11, we disbursed over $1.6 billion in loans to help young farmers build their dreams.

Corporate governance

We are accountable to the Parliament of Canada

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, we are subject to laws such as the Federal Accountability Act, the Privacy Act, the Access to Information Act, the Canadian Environmental Assessment Act and the Official Languages Act.

Representing the interests of Canadian people, particularly those who make their livelihood in the agriculture sector, the corporation's Board of Directors oversees FCC's business operations.

Directors are appointed by the Government of Canada through the Minister of Agriculture and Minister for the Canadian Wheat Board. The Board members are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, Board members are independent of management. They bring a combination of senior agriculture, business and financial experience to the task of governing an organization with seven lines of business that serves an increasingly complex industry.

Board composition

The Board is composed of 12 members, including the Chair and the President and CEO. Directors serve terms of up to four years and may be re-appointed.

Board members include successful primary producers and agribusiness operators from rural and small urban centres. The Board strives for diversity – gender, geographic, ethnic, culture, age and language – to reflect the broad spectrum of agriculture in Canada.

The Board is committed to financial transparency and the Audit Committee works closely with the Office of the Auditor General (OAG) of Canada to ensure the integrity of FCC internal controls and management information systems. The OAG audits FCC every year and performs a special examination at least every 10 years. The last special examination was completed in 2007.

Every year, FCC's annual report and five-year corporate plan are approved by FCC's Board of Directors. The annual report and a summary of the corporate plan are then submitted to the Minister of Agriculture and the President of Treasury Board to be tabled before each House of Parliament.

We build relationships with our partners, stakeholders and customers

FCC looks to a variety of stakeholders and partners for guidance and expertise in public sector governance practices.

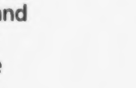
FCC regularly meets with Agriculture and Agri-Food Canada, the Treasury Board Secretariat, the Department of Finance and other Crown corporations to ensure that its policies and procedures are current and sound. Twice each year, we collaborate with Export Development Canada and the Business Development Bank of Canada to share ideas and best practices about ways that we can work together to benefit customers. We also seek opportunities to work with banks and credit unions to meet the financial needs of our customers.

Our 9,000-member FCC Vision Panel includes Canadian producers, customers and others involved in agriculture who share their ideas, knowledge and insights on a voluntary basis. Their input helps us to ensure that our products and services meet the needs of the agriculture industry.

In addition, the Board hosts an annual public meeting every August where we report our activities and financial results and listen to feedback from interested stakeholders and the Canadian public about our mandate and strategic direction.

FCC attends the annual meeting of the Canadian Federation of Agriculture and the Canadian Young Farmers Forum. Employees also attend events and meetings hosted by other industry and producer groups to share knowledge and solicit input and feedback on issues facing agriculture.

Flax is used in the creation of Canadian currency.



We take care of the business

The Board oversees the strategic planning process and provides input, guidance, validation and a critical evaluation of strategic plans and initiatives. After plans are approved, the Board provides support to implement them and measure success. Strategic initiatives are reviewed throughout the year.

The roles and responsibilities of the Chair, Board members, the CEO and all committees are set out in written profiles and charters. The charter and related governance guidelines establish the Board's responsibilities in six major areas:

- integrity – legal and ethical conduct (setting the tone at the top)
- strategic planning
- financial reporting and public disclosure
- risk management and internal controls
- leadership development and succession planning
- corporate governance including director orientation, continuing education and evaluation

The corporation has a well-established enterprise risk management process designed to identify potential events that may affect business operations. The Board ensures that appropriate authorities and controls are in place, risks are properly managed, and that the achievement of goals and objectives is not in jeopardy.

Senior FCC leaders work closely with the Board to ensure that the Board is fully aware of the organization's affairs. The Chief Financial Officer and the Chief Operating Officer attend every Board meeting. Two other members of the Executive Management Team also attend meetings on a rotating basis to strengthen the relationship between the Board and management. There is time set aside at each meeting for the Board and each of its committees to meet without management present.

The Board follows a formal approach to CEO goal-setting and performance review that is consistent with the Performance Management Program established by the Privy Council Office.

Board performance

Upon appointment to the Board, each member receives a detailed orientation and meets with senior management to learn about the business. To gain an understanding of FCC's business, Board members regularly visit customer operations and employee meetings. In addition, many members attend conferences and seminars that are relevant to corporate governance and the business of FCC. Some are also involved in director certification programs.

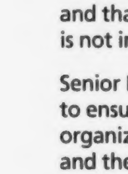
The Board regularly assesses its collective performance and the individual performance of its members through a structured self-evaluation process.

Position profiles for the Chair and individual Directors are reviewed annually to ensure that they continue to accurately describe desired competencies and skills. Board members self-assess their competencies and skills. Gaps are addressed through new appointments, training and by hiring outside experts.

Compensation

Directors are paid an annual retainer and per diem amounts that are established by the Governor-in-Council, pursuant to the Financial Administration Act. Rates were last set on January 8, 2008.

- The Board Chair receives an annual retainer of $12,400.
- Committee Chairs receive an annual retainer of $7,200.
- Other Board members receive an annual retainer of $6,200.
- All members, including the Chair, receive a per diem of $485 for meetings, training sessions, travel time and FCC-sponsored events.
- Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties.



An enzyme extracted from corn is used to make insulin.

During 2010-11, there were five Board meetings and 14 committee meetings. Total remuneration (annual retainer and per diems) paid to all Directors was $220,232.50. Total Board travel and related expenses were $155,545.62, compared to $186,114.25 in 2009-10.

2010-11 Board remuneration, attendance and expenses

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)	Board meeting attendance	Committee meeting attendance	Board travel and related expenses
Caroline Belzile	$ 6,200.00	$ 14,065.00	$ 20,265.00	5 of 5	5 of 5	$ 13,431.77
Donald Bettle	6,200.00	14,550.00	20,750.00	5 of 5	4 of 4	17,140.05
Caroline Granger	7,200.00	11,640.00	18,840.00	5 of 5	4 of 4	10,317.35
Brad Hanmer	7,200.00	6,305.00	13,505.00	5 of 5	5 of 5	4,078.68
Ron Hierath	6,200.00	14,550.00	20,750.00	5 of 5	4 of 4	19,496.52
John Klippenstein	7,200.00	15,277.50	22,477.50	5 of 5	5 of 5	12,809.24
Gilles Lapointe	6,200.00	12,610.00	18,810.00	5 of 5	5 of 5	15,805.60
Ross Ravelli	6,200.00	13,095.00	19,295.00	5 of 5	5 of 5	15,053.36
Gill O. Shaw	12,400.00	15,520.00	27,920.00	5 of 5	5 of 5	22,029.76
Jason Skinner	6,200.00	10,670.00	16,870.00	5 of 5	5 of 5	8,134.56
Carl Spencer	6,200.00	14,550.00	20,750.00	5 of 5	4 of 4	17,248.73
Total	**$ 77,400.00**	**$ 142,832.50**	**$ 220,232.50**			**$ 155,545.62**

There were five Audit, five Human Resources and four Corporate Governance Committee meetings.

Code of conduct, ethics and values

At FCC, acting with integrity and maintaining the highest ethical standards are vital priorities. On appointment and every year during their tenure, each Director signs a declaration committing to act in accordance with FCC's Code of Conduct and Ethics. The Board has also established a process to directly disclose any potential violations of the code by the CEO or his direct reports, and a policy that specifies how to deal with situations where a Director has a conflict of interest. FCC's integrity officer discloses all possible violations of the code and discusses ongoing employee education and awareness with the Board annually.

In addition, the Audit Committee reviews the travel and hospitality expenses of the CEO quarterly and a listing of all contracts over $50,000.

Audit Committee

Chair: John Klippenstein
Members: Gill O. Shaw (Board Chair), Gilles Lapointe and Jason Skinner

Members of the Audit Committee are independent of management. All committee members are financially literate and several members are considered to be financial experts, as those terms are now commonly used with respect to the composition of audit committees.

The Audit Committee oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems and audit functions.

This committee meets regularly in private with representatives of the Office of the Auditor General of Canada, FCC internal auditors and management.

Human Resources Committee

Chair: Brad Hanmer
Members: Greg Stewart (CEO), Caroline Belzile and Ross Ravelli

This committee reviews all major human resources policy matters. The Human Resources Committee is responsible for advising the Board with respect to the skills and characteristics essential to the position of the CEO, how to assess the CEO's performance and working with him to agree on an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's succession plan, including plans for training and development of all employees, and for the review of the executive perquisites program with respect to senior management.

Corporate Governance Committee

Chair: Caroline Granger
Members: Ron Hierath, Donald Bettle and Carl Spencer

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It also oversees the corporation's strategic planning process, including enterprise risk management and FCC's corporate social responsibility program. This committee also acts as the Board's nominating committee.

The Corporate Governance Committee regularly reviews the number, structure and mandates of the Board's committees and is responsible for conducting Board evaluations concerning the performance of Directors, committees and the Board as a whole. The Corporate Governance Committee also oversees the corporation's and the Board's policies on ethics, conflict of interest and code of conduct for FCC employees and Directors.

Car airbags contain
corn starch.

Board of Directors*

Gill O. Shaw, MBA, B.Sc.Ag.
Chair, FCC Board of Directors

Retired CEO
Manitoba Agricultural Credit Corporation, Brandon, Manitoba
Appointed Chair October 30, 2006
Reappointed Chair August 4, 2009

Greg Stewart, P.Ag.
President and CEO
Farm Credit Canada

Regina, Saskatchewan
Appointed January 1, 2008

Caroline Belzile, D.T.A.
Co-owner, beef, hog and grain farm and sugar bush

Saint-Elzéar, Quebec
Appointed January 29, 2008

Donald Bettle
Owner, cow/calf operation and woodlot

Passekeag, New Brunswick
Appointed January 25, 2007

Caroline Granger
President and CEO
The Grange of Prince Edward Vineyards and Estate Winery

Hillier, Ontario
Appointed June 27, 2007

Brad Hanmer, B.Sc.Ag.
Co-owner/operator, commercial grain and pedigreed seed farm

Govan, Saskatchewan
Appointed January 25, 2007

Ron Hierath
Realtor, residential and agricultural sales

Lethbridge, Alberta
Appointed January 25, 2007

John Klippenstein, CMA
COO, Klippenstein Management Services

Steinbach, Manitoba
Appointed July 30, 2008

Gilles Lapointe, B.Comm., CGA, CFP
Partner, BDO Dunwoody LLP

Casselman, Ontario
Appointed March 11, 2008

Ross Ravelli
Owner, Ravelli Farms Ltd.

Dawson Creek, British Columbia
Appointed February 10, 2010

Jason Skinner, M.Sc., P.Ag.
CEO, NorthWest Terminal Ltd.

Wilkie, Saskatchewan
Appointed February 12, 2009

Carl Spencer, B.Sc.Ag.
Owner/operator, beef farm and maple syrup operation

Tara, Ontario
Appointed November 26, 2009

Canola oil is part of the compound used to de-ice planes.

*Full biographies are available at www.fcc.ca.

Executive Management Team

Greg Stewart, P.Ag.
President and Chief Executive Officer

Moyez Somani, CMA, MBA, FCMA
Executive VP and Chief Financial Officer
*Retired effective June 3, 2011

Rick Hoffman, CMA, MBA
Executive VP and Chief Financial Officer
(Effective May 23, 2011)

Rémi Lemoine, MBA, CCP
Executive VP and Chief Operating Officer

Lyndon Carlson, P.Ag.
Senior VP, Marketing

Kellie Garrett, MA, ABC, MC
Senior VP, Strategy, Knowledge and Reputation

Michael Hoffort, P.Ag.
Senior VP, Portfolio and Credit Risk

Greg Honey
Senior VP, Human Resources

Paul MacDonald
Senior VP and Chief Information Officer

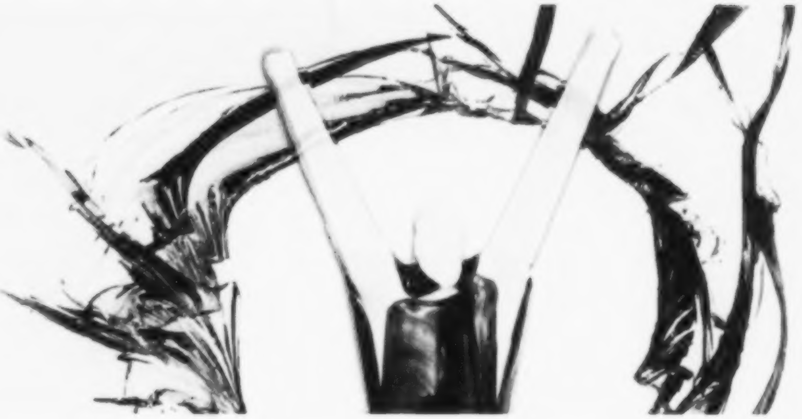
FCC has attracted a senior team of professionals with diverse talents and experience. Our Executive Management Team (EMT) members are sought after as best practice leaders in their professions, and they actively volunteer in their communities. Each member of EMT believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

EMT is responsible for corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues.

All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the Board of Directors. The Governor-in-Council establishes the President and CEO compensation. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2010-11, the salary range for the President and CEO was set at $281,400 to $331,000. The salary range for Executive Vice-Presidents was $209,605 to $320,570. The salary range for Senior Vice-Presidents was $151,920 to $232,345.

*Congratulations to Moyez Somani who made an outstanding contribution to the financial management of FCC and its strategic direction. As a result of Moyez's retirement, Rick Hoffman was promoted to Executive Vice-President and CFO, effective May 23, 2011.

FCC Rosemary Davis Award



As agriculture continues to evolve, so does the face of the industry. More and more women are being recognized for their innovation and leadership in the field. This year, we are proud to honour five of these outstanding women as the 2011 winners of the FCC Rosemary Davis Award.

The award is presented annually to women across Canada who serve as role models to others in the agriculture industry. Successful producers, agrologists, mentors, educators, agribusiness operators and volunteers, these women display a knowledge and passion for agriculture that is second to none.

Liliane Colpron
Businesswoman, agri-food industry leader, visionary

Montreal, Quebec

Bertha Campbell
Registered nurse, co-owner, volunteer

Kensington, Prince Edward Island

Wynne Chisholm
Cow-calf producer, management consultant, volunteer

Calgary, Alberta

Sherri Grant
Producer, educator, volunteer

Val Marie, Saskatchewan

Rossana Di Zio Magnotta
Philanthropist, educator and entrepreneur

Vaughan, Ontario

This award is named for Rosemary Davis, the first woman to chair FCC's Board of Directors. FCC is proud to honour her contributions to the industry as a successful agribusiness owner and operator.

Canada produces 85% of the world's maple syrup.

Corporate social responsibility

At FCC, we take corporate social responsibility seriously. It's part of our corporate vision and guides how we operate.

We give back to the communities where our customers and employees live and work, strive to reduce our impact on the environment and contribute to the success of the Canadian agriculture industry.

Agriculture and food

We support the development of a sustainable, competitive and innovative Canadian agriculture industry by providing knowledge and education, and by supporting initiatives and forming partnerships that advance the business of agriculture.

Priorities	Actions
Young farmers and producers Help young farmers and producers develop in the industry.	• supporting young farmers to be successful through our Generation Ag programs
Industry knowledge and skills Increase industry knowledge and skills for a successful and profitable industry.	• hosting FCC Learning events • offering FCC Management Software • publishing and distributing the latest industry news
Agriculture and agri-food networks Strengthen and support agriculture and agri-food networks.	• supporting and partnering with industry associations
Agricultural safety Contribute to the safety of the industry.	• partnering to deliver Canadian Agricultural Safety Week • offering the FCC Ag Safety Fund
Pride in agriculture Promote agriculture as a vibrant, forward-looking industry, fostering excitement and building a positive image of Canadian agriculture.	• measuring optimism in the agriculture industry • honouring women in agriculture through the FCC Rosemary Davis Award • partnering with Agriculture in the Classroom

Canada is the sixth largest beef-exporting country in the world.

Community

We foster strong and vibrant communities where our customers and employees live and work, with a focus on rural Canada.

Priorities	Actions
Hunger Raise food by organizing an annual food drive that focuses on reducing hunger in Canada.	• organizing the FCC Drive Away Hunger program to raise food and funds for Canadian food banks
Community enhancement Support the communities where our customers and employees live and work, with a focus on rural Canada.	• supporting rural Canadian capital projects through the FCC AgriSpirit Fund • celebrating minority official language communities through the FCC Expression Fund • supporting Regina-based charities and not-for-profit organizations with the FCC Regina Spirit Fund
Volunteerism Support employee volunteerism.	• encouraging volunteerism by supporting the organizations our employees serve through our employee donation match program, team volunteer program and our monthly volunteer draw

Customers

We focus on primary producers as well as suppliers and processors along the agricultural value chain. We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

Priorities	Actions
Customer experience Consistently provide an extraordinary customer experience.	• asking our customers to provide feedback at key touch points throughout the year • enhancing the electronic channels our customers use to do business with us
Customer support Demonstrate unwavering support and commitment to customers.	• providing support to customers that are affected by short-term crisis through the FCC AgCrisis Fund
Products Deliver products in response to customer needs and wants.	• working with customers to ensure our products meet the unique needs of their business

Employees

We foster a culture of accountability, partnership and diversity – and deliver a stellar employee experience.

Priorities	Actions
Corporate culture Sustain and grow our culture.	• measuring employee engagement • providing ongoing learning to deepen the organizational culture
Leadership Enhance leadership capabilities throughout the organization.	• developing leaders through specialized learning programs
Diversity and official languages Build a workforce that reflects the diversity and linguistic duality of our customers and the Canadian workforce as a whole.	• offering opportunities to learn about different cultures • providing an aboriginal summer student program • creating an aboriginal student fund • offering second language training for employees
Employee health and wellness Promote good health among employees through education and awareness.	• offering all employees a benefits program to support overall health and well-being
Learning and career development Provide learning opportunities for employees to develop their careers.	• creating individual development plans and reviewing progress annually • providing learning and growth opportunities for employees

Environment

We improve our environmental performance and support the industry with tools and knowledge to do the same.

Priorities	Actions
Environmental footprint Reduce the impact of our internal operations on the environment.	• measuring our greenhouse gas emissions, conducting waste audits and educating employees on environmental sustainability
Tools, knowledge and environmental products Develop and share tools, knowledge and environmental products.	• offering the Energy Loan and FCC Enviro-Loan to empower our customers to increase the sustainability of their operations
Environmental risk Identify and evaluate environmental risks.	• following the Canadian Environmental Assessment Act and conducting the necessary environmental assessments with our customers and prospective customers

Management's discussion and analysis

Industry overview 29

Global trends 29
Key economic conditions 29
Agriculture sector overview 30
Current and potential impacts for FCC 32

Strategic overview 33

Vision and strategy 33
FCC corporate scorecard 33

2010-11 Strategic themes and results 34

Commitment to agriculture 34
Customer experience 37
Efficiency and execution 39
Culture and employee experience 42
Financial strength 45

Financial performance review 48

Financial performance versus plan 48
Financial performance versus prior year and outlook 49
- Portfolio growth 49
- Lines of business 52
- Profitability 56
- Credit quality 58
- Efficiency 63
- Funding and liquidity 64
- Shareholder return 66

2011-12 Future targets, objectives and initiatives 67

Customer experience 68
Efficiency and execution 69
Employee experience 70
Financial viability and enterprise risk 71

Enterprise risk management 72

Risk governance 72
FCC's principal risks 74

Changes in accounting standards 76

Current changes 76
- Consolidated financial statements and non-controlling interest 76

Future changes 76
- International Financial Reporting Standards 76

Industry overview

Global trends

FCC operates in the agriculture and finance industries. Both are shaped by market forces and global trends that affect those involved in agriculture and agri-food. We continue to monitor the impact of the global financial crisis, increasing demand for food and rising world prices, concern for the environment and alternative uses for agriculture products. Knowledge and opinion about these issues varies and instantly shared through social media and the Internet.

Several trends may directly affect Canadian agriculture. The world food diet is becoming more westernized. Demographics are changing. Populations are aging in western nations and on the rise in developing countries, a trend that will further alter the dynamics of food demand. There is good potential for Canadian products in emerging markets. To capitalize on these opportunities, new knowledge must be applied within traditional categories such as food, feed and fibre production. Other innovative ventures include carbon storage and biofuels.

Increased attention is focused on climate variability and the rising cost of energy. The demand for oil is expected to increase by as much as 35% in the next 20 years, which could significantly impact producers. Some are working now to make their operations more energy efficient. Others are producing electricity and selling any surplus to the energy grid.

No one can predict with certainty how external operating environment trends will impact Canadian agriculture and agri-food. FCC will continue to monitor trends, consider implications and proactively develop a strategic response.

Key economic conditions

Globally, economic recovery appears to be driven by business investments and exports. Despite relatively high unemployment in many countries, the Organization for Economic Co-operation and Development (OECD) believes that the recovery is self-sustaining. Canada is seen as a leader in growth among industrialized economies. Economic forecasts indicate Canada's annualized gross domestic product (GDP) growth in the 3% range. Still, many uncertainties about global economic recovery remain. Risks to a sustained recovery include impacts of the Japanese earthquake, persistent unrest in the Middle East and sovereign debt woes in Europe.

Canada's banking system continues to be held up as an example to the world in the time since the global economic crisis, a system that is demonstrating increased strength. Financial institutions around the world are focused on more conservative risk policies and reduced operating costs.

FCC is monitoring the potential impacts of inflation and interest rate increases that could result from economic growth.

The federal government has made the return to balanced budgets a clear priority. The three key elements of the government's overall plan are winding down stimulus spending, implementing targeted measures to restrain growth in direct program spending and undertaking reviews of government administrative functions and overhead costs to improve efficiency and effectiveness. The government has requested that all areas of government control costs, including Crowns.

Caution regarding forward-looking statements

This management's discussion and analysis (MD&A) includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates. To manage within this volatility, management routinely forecasts financial results as early as the first quarter.

Agriculture sector overview

Canadian agriculture and agribusiness owners are embracing new opportunities. A 2010 poll of FCC's Vision Panel revealed that optimism is at a four-year high. Three-quarters of those surveyed (76%) said that their farm or business will be better off in five years, compared to 2009 (70%). More Canadian producers reported being better off than they were five years ago and they have higher expectations for future growth than in the past. Intentions to expand and diversify are also at a four-year high. This is not to say that the industry does not have its challenges, which vary considerably from one sector to another.

Pork

The pork industry experienced some recovery in global demand in 2010. At the same time, the combined hog inventories of both Canada and the United States declined, a trend that is expected to continue into 2011. Reduced overall supply in both countries has contributed to stronger prices for hogs. Because the Canadian dollar has appreciated in value, Canadian hog producers have not experienced the same price gains as their counterparts in the United States.

Beef

The beef industry experienced some recovery in global demand in 2010. Cattle inventories and the number of producers in Canada continued to decline for a number of reasons, including shifts in age demographics within agriculture, steady increases in production costs, and increased competition for acreage. On a positive note, cattle prices have increased significantly and margins have improved, particularly for cow-calf producers.

Grains and oilseeds

Weather significantly impacted the grains and oilseeds sector in 2010. Southern Alberta, Saskatchewan and Manitoba experienced high levels of rainfall during the growing season, which reduced the total number of acres seeded and lowered crop quality. Conversely, parts of the Peace River region of Alberta, Ontario and Quebec experienced low levels of precipitation, resulting in lower crop yields and quality. Consequently, producers have not been able to capture the full benefits of higher world prices for grains and oilseeds. Prices remain unsteady as world growing conditions and inventories fluctuate.

As of March 13, 2011, total exports of Canadian grains were nearly 3% higher than a year ago, according to the Canadian Grains Commission.

Dairy

In 2009, Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island (also referred to as the P5 provinces) agreed to harmonize dairy quota. As part of the agreement, quota prices are being lowered to $25,000 per kilogram (kg); however, the time frame is different for each province. Quota prices in Ontario and Quebec (which account for the majority of quota in Canada) were lowered to $25,000 per kg toward the end of 2009, and quota prices in these two provinces were unchanged in 2010. British Columbia, Alberta, Saskatchewan and Manitoba have yet to implement similar policies. As a result, their quota prices are all above $25,000 per kg.

Poultry

Canadian chicken consumption increased by 1.4%, according to the Alberta Chicken Producers. Demand for chicken increased due to improvements in the Canadian economy, resulting in stronger overall demand for meat products.

Biofuels

Biofuels expansion continues to present opportunities for agribusiness in Canada. A national biodiesel mandate of 2% will begin in July 2011. According to the Canadian Renewable Fuels Association list of biodiesel facilities,14 of 22 facilities are operational while the remaining eight are in the proposal or construction phase. Expansion of ethanol production in Canada has slowed as federal and provincial mandates are being met. There is still some interest in Alberta and Eastern Canada (Ontario and Quebec) for possible expansion of the ethanol industry; however, there is no new construction.

Greenhouses

The Canadian greenhouse industry relies heavily on exports to the U.S. market. In 2010, the industry also faced challenges created by the high Canadian dollar and high energy prices, including competition from European exporters. However, Canadian greenhouses continue to benefit from customers' reliance on them to provide safe, fresh produce.

Agribusiness and agri-food

Processing is very important to Canadian agriculture. Consumer demand for higher priced value-added products is slowly improving as economies in Canada and worldwide improve. The agribusiness and agri-food sector faced challenges caused by the high Canadian dollar relative to the U.S. dollar, making exports from Canada less attractive than similar products from the United States. Conversely, the high Canadian dollar provided an opportunity for companies to increase efficiencies by purchasing new equipment from the United States.

Farmland values

Twice a year, FCC compiles and releases its Farmland Values Report, the only Canadian source that highlights changes in land values in each province and nationally.

The average value of Canadian farmland increased 2.1% between July and December 2010, continuing the steady increase reported during the last decade. Farmland values remained stable or increased in all provinces.

In the last three semi-annual reporting periods, farmland values increased by an average of 3.6% in spring 2010, 3.0% in fall 2010 and 2.1% in spring 2011. The highest average national increase was in 2008 at 7.7%. The last time the average value decreased was in 2000 (by 0.6%).

Prince Edward Island experienced the highest average increase at 3.2%, followed by Saskatchewan at 2.7%. New Brunswick and Ontario each saw 2.4% growth, followed by Alberta at 1.5% and Manitoba at 1.3%. Quebec (0.9%), Nova Scotia (0.6%) and British Columbia (0.4%) rounded out the list of provinces that experienced a rise in farmland values. Values were unchanged in Newfoundland and Labrador.

Debt-to-asset ratios

While debt levels for Canadian farms have been increasing, asset values have as well. As a result, the debt-to-asset ratio for Canadian agriculture has remained constant at 19% between 2005 and 2009. Over the previous five-year period, the net worth of Canadian farms increased by $53.7 billion. FCC Relationship Managers work with each customer to help them analyze and understand the impacts of debt on their business. FCC also monitors the financial health of the agriculture industry as a whole. To ensure the long-term success of the industry as well as that of individual business owners, it is important that debt is being used to increase profitability. While total farm liabilities in Canada increased by 33% from 2005 to 2009, the total liabilities to net income ratio increased by a more modest 11%.

Sector profitability

FCC holds 27.9% of Canadian farm debt as of December 31, 2010. In 2010, credit availability was an issue for the broader economy due to recession. However, the Canadian farm debt market grew by 6.1% in 2010, signalling the availability of credit for Canadian agriculture. Credit availability for larger agricultural equipment manufacturers has improved as three other financial institutions have entered or re-entered this market.

Total farm cash receipts for 2010 improved in the fourth quarter for many enterprises, especially grains and oilseeds.

Total farm market receipts declined by 1.5% to $43.8 billion; however, they remain 6.7% higher than the previous five-year average. Farm cash crop receipts (crop and livestock revenues plus program payments) dropped by 1.7% in 2010. Specifically, crop receipts declined 6.3% and livestock receipts increased 4.7%. Net cash income (includes program payments) also saw an increase of 4%. In 2009, total farm market receipts were up 26% and net cash income was up 25% above the five-year average from 2003-07.

Current and potential impacts for FCC

FCC has experienced significant growth every year for more than a decade. Revenues and administration expenses have grown in relation to FCC's product and service offerings, and overall loan portfolio. Over the same period, FCC has realized improvements in its efficiency while growing its loan portfolio. This is projected to continue to trend favourably over the next five years. FCC understands the importance of restraining spending and remaining financially viable through all economic cycles to support customers through good and challenging times. Maintaining strong customer satisfaction and employee engagement are important to the continued growth and success of the agriculture and agri-food industry.

FCC remains financially strong with $3,354.8 million in equity and loan loss reserves, low debt-to-equity and high-quality risk management practices. FCC's portfolio is diversified by enterprise and geography because it lends to all areas of agriculture across Canada, which reduces risk.

FCC is beginning the next fiscal year in a strong financial position and expects to meet its strategic targets in 2011-12. It will continue to closely monitor external and internal financial trends, assess implications and create proactive strategies to address them. Risk levels will be diligently monitored to ensure they continue to be within acceptable tolerances.

FCC's commitment to Canadian agriculture is unwavering. It will continue to monitor and respond to economic conditions as needed in order to achieve the objectives it has set out to maintain financial strength.

Strategic overview

Vision and strategy

As Canada's leading agriculture lender, FCC is advancing the business of agriculture by providing financing, insurance, software, learning programs and other business services to producers, agribusinesses and agri-food operations. FCC is strong and stable – committed to serving the industry through all cycles. Our employees are passionate about agriculture and committed to the success of customers and the industry. They are guided by FCC's vision:

The full agriculture value chain believes FCC is advancing the business of agriculture by providing financial products, tools and knowledge tailored to producers and agribusiness operators. Our customers are advocates of FCC and can't imagine doing business without us. We are a strong corporate citizen and an employer of choice everywhere we operate. Our focus on continuous improvement makes it easy for customers and employees to do business. We are financially viable and invest significantly in the agriculture and agri-food industry.

FCC corporate scorecard

FCC's strategic direction is aligned with government priorities. Both the 2010 Minister's Statement of Priorities and the Agriculture and Agri-Food Canada Growing Forward agricultural policy framework were reviewed as inputs.

FCC uses a corporate scorecard to monitor and measure progress against its corporate strategy. To achieve the vision and deliver on the mission, FCC has developed objectives and strategies that are categorized into five strategic themes:

- Commitment to agriculture
- Customer experience
- Efficiency and execution
- Culture and employee experience
- Financial strength

2010-11 Strategic themes and results

The 2010-11 corporate scorecard summarizes the corporation's performance against objectives. The strategic objectives and targets are based on the corporate strategy reported in the 2010-15 Corporate Plan Summary. FCC's results demonstrate its commitment to producers, agribusiness operators and the industry.

Theme: Commitment to agriculture

FCC has a reputation for offering outstanding financial products, knowledge and services tailored to agriculture, and for being a strong corporate citizen.

Critical outcome

In 2020, 85% of customers and 25% of stakeholders consider FCC the preferred choice for financial products, knowledge and services tailored to agriculture, and view FCC as a strong corporate citizen.

Summary of 2010-11 results

FCC met or exceeded its 2010-11 targets under the Commitment to Agriculture theme. The corporation is on track to achieve its long-term strategy. FCC launched Go Ag!, a program that supports young farmers at every stage. FCC offered learning events and publications free of charge to producers across Canada.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Corporate social responsibility scorecard	Report against scorecard	**Achieved**	Report against scorecard	**On track:** FCC has enhanced its performance measurement for corporate social responsibility in each of its five focus areas. Detailed information will be provided in a new Corporate Social Responsibility Report that will be released in Q3, 2011-12.
Corporate reputation index	+50 or more	Replaced: FCC has changed its reputation measure from a bi-annual index to more frequent surveys of customers and stakeholders.	Develop new approach and measurement	Exceeded: A national study benchmarking FCC's reputation against major national brands was completed. FCC achieved a significant increase among producers in both awareness and positive reputation. FCC has moved to 5th place from 22nd place in 2005.
Media favourability index	10 points above global average for financial institutions	Not achieved: The global favourability rating for financial institutions was 53. The FCC favourability score was 61.	7 points above global average for financial institutions[1]	Exceeded: Media favourability for 2010-11 was 64. This is nine points above the favourability for global financial institutions (also up this year by two points to 55).

Notes:

1) Media favourability target was changed from 10 to 7 in Q3 2009-10. The target was set too high given the economic recession.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Invest in initiatives that advance the business of agriculture	Invest in initiatives that promote the business of agriculture and agri-food in Canada and contribute to the success of this industry	**Achieved:** In 2010-11, FCC continued to promote and advance the business of agriculture and agri-food in Canada through learning events, publication and sponsorship of industry trade shows and associations. Examples include: AgriSuccess (75,250 subscribers); FCC Express e-zine (32,609 subscribers); 288 learning events (29,574 attendees); 26 trade shows.
Assist young farmers and agribusiness operators	Develop additional programs for young farmers and agribusiness operators	**Achieved:** In 2010-11, Go Ag! was offered to ag colleges across the country. This program provides up to $2,000 in funding to plan, promote and host an educational event. In 2010-11, eight colleges signed on and a total of 760 students attended these events.
Be a leader in providing knowledge that enhances producer and agribusiness success	Create and implement long-term knowledge strategy that includes aggregating knowledge, innovations and practical ideas for producers and agribusiness operators	**Achieved:** The working committee used an assessment tool to prioritize ideas for enhancing employee knowledge. The Community of Practice model was replaced with online networks that connect employees with knowledge on various topics. The focus is on further leveraging the knowledge we create with customers and the industry.
	Offer FCC Learning programs, events and publications to the agriculture industry	**Achieved:** A series of pilot programs (video, webinar, podcasting and online e-courses) are being offered to producers to determine what they consider to be of value to their business. Example: Management Forum speaker interviews videos were produced and released on the FCC website and 782 views occurred in one month.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Ensure that FCC acts in the best interest of all stakeholders	Develop integrated reputation management strategy, including media relations, issues management, web community involvement and internal monitoring	**On track:** A new governance structure and processes were created to check for reputation risk and manage external issues or events. The national media relations strategy was fully implemented and contributed to positive media favourability results as noted on the prior page.
Operate as a good corporate citizen	Community enhancement a) Invest $1 million in rural capital projects through the FCC AgriSpirit Fund b) Support minority official language communities c) Support the community where over half of our employees live and work	**Achieved:** a) The FCC AgriSpirit Fund awarded $1 million to 104 rural capital projects that will enhance rural communities. b) The FCC Expression Fund provided $50,000 to projects that contribute to the vitality of official language minority communities and help residents express the cultural and linguistic diversity of their area. c) Through the FCC Regina Spirit Fund, FCC invested $100,000 to support 18 community enhancement projects carried out by Regina charitable and non-profit organizations.
	Benchmark FCC's environmental footprint	**On track:** An external organization was contracted to measure the composition of waste at corporate office. An engineering consultant was engaged to establish FCC's greenhouse gas emissions baseline for 2011-12.

Theme: Customer experience

Customers receive FCC's unique customer experience and are passionate advocates of FCC.

Critical outcome

In 2020, FCC delivers an extraordinary customer experience index to customers, prospects and suppliers. FCC's customer experience index score is at 65 or higher.

Summary of 2010-11 results

FCC exceeded its customer experience target; more than one in six customers give FCC perfect scores. We are very proud of the confidence and loyalty shown by our customers.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Customer experience index	57.94%	**Ahead:** at 60.81%.	58.44%	Exceeded: at 61.64%.
Total lending to young farmers	$1.43 billion	**Ahead:** at $1.8 billion; 2009-10 was a record year for disbursements to young producers.	$1.71 billion	Behind: at $1.63 billion. Net disbursements as of March 31, 2011, represent 95% of target.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Known in Canada as a best-practice organization that consistently provides an extraordinary customer experience	Conduct a gap analysis based on the Customer Experience Index to define customer needs and minimize inconsistencies in customer service	**On track:** FCC conducted a qualitative study on customer experience and channels to explore what customers think matters most and how channels fit in.
	Define agriculture and finance knowledge expectations of customer-facing staff and integrate with the sales process to ensure a stellar customer experience	**On track:** FCC defined knowledge expectations of customer-facing staff over the course of their FCC careers. In addition, "knowledge as a sales tool" presentations were provided across Canada. Research was also conducted on employees' knowledge habits and behaviours. Next steps will include change management, awareness, knowledge gap identification and capture.
Contribute to the success of the agriculture and agri-food industry by serving the full value chain	Conduct awareness campaign with agribusiness and agri-food markets	**Achieved:** AgValue advertising campaign was executed and testimonial ads placed in key sector publications across the country.
	Equip employees with skills, products and services tailored to the unique needs of agribusiness and agri-food operators	**Achieved:** A product scan was completed. Product Managers assisted employees with their knowledge of FCC offerings. AgValue Relationship Managers received "on-demand" packages customized to individual customer needs.
Make it easy for customers to do business with FCC	Enhance customer channel choice by offering more options for doing business with FCC through the Customer Service Centres	**Achieved:** The Customer Service Centre (CSC) Real Property Loan pilot was successfully completed. Over 100 loans were sent to the CSC. Business and technical requirements for customer relationship management were defined and implemented.
	Create a web and e-channel strategy to enhance ability of customers and partners to do business electronically with FCC	**Achieved:** A governance committee for the web and e-channel was established to implement these completed strategies. Critical interdependencies were identified across planned web, e-business, intranet and future mobile applications.

Theme: Efficiency and execution

FCC's agility in decision-making processes and technical and operational infrastructure makes it easy for customers and employees to do business.

Critical outcome

In 2020, FCC is a highly efficient, effective and agile organization in the eyes of customers, business partners and employees.

Summary of 2010-11 results

FCC exceeded targets on the "easy to do business" indicator, on both customer and employee. The project management maturity target also was exceeded. The implementation of the business and technology transformation program is well underway. FCC continues to identify ways to maximize corporate performance.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Customer experience index (easy to do business indicator)[1]	52.57%	Ahead: at 58.08%. This means that 6 out of 10 respondents give FCC perfect scores on this measure.	53.07%	Exceeded: at 59.85%.
Employee engagement (easy to do business indicators)[2]	Greater than or equal to the average of the top 50 employers	Behind: at 77.8%. The average of the top 50 employers is 78.8%.	Greater than or equal to the average of the top 50 employers	Exceeded: at 78.8%. The "easy to do business" employee score is comprised of the average of the employee engagement scores for five selected drivers. The top 50 employers' score was 77.6%.
Project management maturity[3]	Project management maturity score of 37%	Ahead: at 43%.	Project management maturity score of 40%	Exceeded: at 51%.

Notes:

1) Easy to do business indicator: the percentage of customers responding 5 on a scale of 1 to 5 (top box score) to the question: Is it easy to do business at FCC?

2) Easy to do business indicators include: co-workers, physical work environment; resources; work processes; work tasks

3) Maturity is based on the OPM3 Product Suite project management score

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Optimize how FCC conducts business	Complete implementation of the business and technology transformation program (BK)	**Achieved** (with adjustments): As of March 31, 2011, after 51 months of operation, the BK Program was 88% complete. Although progress has been good, adjustments were made to implementation plans. The multiple loan conversions are now scheduled to occur by October 2011. This is a one-month delay from the original estimate.
	Identify corporate functions, services and processes for potential alternate methods of service delivery and/or partnerships	**On track:** IT issued a Request for Proposal for increased network infrastructure outsourcing. A preferred vendor was chosen, and a contract is expected to be signed by July 2011. Other examples include: redesign of audit process, research for a new method of recruiting potential employee candidates to FCC, and new distribution channels for software sales with agricultural retailers.
	Optimize how FCC does business by reviewing optimization throughout the corporation	**Achieved:** An external optimization study was conducted, which found that FCC operates in a highly efficient manner. Ideas for further exploration were provided. This year, executive management commissioned a project to formally assess these opportunities. A project plan and methodology were developed and several opportunities were assessed. The business process redesign project for Alliances completed processes and several policies. A new Business Interaction Model was completed that redefines how IT interacts with other FCC divisions. In Q2, FCC completed the first phase of VAL Replacement. VAL is a system that supports FCC's valuations policy, which outlines the standards, criteria and processes required for valuing assets being secured with loans. The second phase will be completed in 2011-12.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Optimize how FCC conducts business, continued	Enhance project management maturity, including benefits realization	**Exceeded:** at 51%. Extensive work in the Corporate Project Management Office (PMO) as well as in IT included: a communication plan implemented, with messages regarding the importance of resource capacity management, its benefits and the consulting support available through Corporate PMO. The Corporate PMO began consulting to various areas to help them understand and implement resource capacity management within their teams. As of October 1, 2010, applicable projects must follow the benefits realization process.
	Develop a comprehensive corporate information management plan, including content management	**On track:** Addressing this opportunity will require a multi-year, multi-project program. Research into the Agriculture and Agri-Food Canada information management program and AgriDocs system has revealed an opportunity to leverage their work at FCC.
Ensure business continuity	Enhance the plans for addressing consequences of pandemic from H1N1 or other unforeseen business disruptions	**On track:** The threat of a pandemic was not evident in 2010-11. Monitoring activity is ongoing. The FCC Business Continuity Plan was updated with no significant changes to the pandemic section.
Implement a web and e-channel strategy	Implement a web and e-channel strategy to enhance web presence	**On track:** A web strategy was approved and a governance committee established along with operating principles. Business requirements gathering is underway.
	Develop plan to enhance the delivery of products and services through e-business	**On track:** Strategy is complete; research conducted; and restructuring occurred.

Theme: Culture and employee experience

FCC is an employer of choice with a high-performance culture and strong employee engagement, which bring out the best in people at all levels.

Critical outcome

In 2020, FCC is an employer of choice, providing inspirational leadership and career growth for people with a passion for excellence. FCC will attain an employee engagement score greater than or equal to the average of the top 50 Canadian employers.

Summary of 2010-11 results

FCC's strong emphasis on its internal culture has led to high employee engagement and a positive employee experience. Several initiatives were pursued in 2010-11, including a health and well-being strategy and a new leadership program. A new learning management system was launched that allows employees to track training and development.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Employee engagement index	Greater than or equal to the average of the top 50 employers	**Ahead:** at 86%. The average of the top 50 employers is 80%.	Greater than or equal to the average of the top 50 employers	Exceeded: at 82%. The average of the top 50 employers was 78%.
Employee engagement – (employee experience Indicators)[1]	Greater than or equal to the average of the top 50 employers	**Ahead:** at 78.2%. The average of the top 50 employers is 75.4%.	Greater than or equal to the average of the top 50 employers	Exceeded: at 75.4%. The Employee Experience Index is comprised of the average of five selected drivers. The top 50 employers' score was 74.2%.
Employee engagement – (leadership indicators)[2]	Greater than or equal to the average of the top 50 employers	**Ahead:** at 79%. The average of the top 50 employers is 73.2%.	Greater than or equal to the average of the top 50 employers	Exceeded: at 73.2%. The Leadership Index score is comprised of the average of five selected drivers from the annual employee engagement survey. The top 50 employers' score was 71.4%

Notes:

1) Employee experience indicators – scores on the following drivers are averaged to calculate the score: career opportunities; learning and development; intrinsic motivation; managing performance; work/life balance

2) Leadership indicators – scores on the following drivers are averaged to calculate the score: senior leadership; manager; recognition; career opportunities; managing performance

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Sustain and grow FCC employee experience	Enhance employee competencies with respect to feedback and coaching	**Achieved:** In 2010-11, 936 employees completed personal leadership training called Leading from Within.
	Implement employee health and well-being strategy	**Achieved:** An employee wellness account was implemented on January 1, 2011. Contracts with the new Employee and Family Assistance Program (EFAP) provider were negotiated. Learning modules for FCC's Defined Contribution and Defined Benefit Pension Plans were developed.
	Sustain and grow FCC employee experience by developing and implementing corporate response to employee engagement survey	**Achieved:** A strategy based on the employee engagement survey results and action planning across FCC was approved in 2010. The strategy focuses on improving the people leadership skills of leaders across FCC. FCC Census Day for diversity was held on October 19, and received a response rate of 80%. Events promoting diversity awareness were held at corporate office. HR took part in a six-week placement program offered by the Regina Open Door Society. Cultural awareness training was delivered to managers taking part in the Aboriginal Summer Student Program. A partnership with the Regina Aboriginal Professionals Association was established to implement plans for celebrating National Aboriginal Day on June 21, 2011.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Enhance leadership capabilities	Implement new leadership development program	**Achieved:** A new leadership development program was achieved. The Five Leadership Principles Program was rolled out to 120 leaders.
	Ensure effective change management practices are employed when rolling out initiatives	**Achieved:** Change management and communication consulting to divisions occurred throughout the year. A new tool that contains key messages regarding change initiatives was rolled out to assist leaders with communication change.
Provide learning and knowledge that offers employees ongoing growth	Implement next phase of FCC learning strategy	**Achieved:** The Learning Management System (LMS), a new system that allows all employees to view, access, register and track all FCC learning opportunities, was launched. Divisional workforce plans were completed and the 2010-11 corporate workforce plan was approved.

Theme: Financial strength

FCC is financially viable and self-sustaining in the long term, while investing significantly in the agriculture industry and utilizing valuable partnerships.

Critical outcome

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio, with a strong balance sheet and an ROE of 12%.

Summary of 2010-11 results

In 2010-11, FCC met or exceeded all financial targets with the exception of Venture Capital Invested. Initiatives were pursued to protect the corporation with sound enterprise governance, risk and compliance practices. An updated enterprise risk management (ERM) framework further integrated ERM with strategy, processes and policies. An Enterprise Security program to safeguard FCC information assets, physical assets and employees was developed. The IFRS conversion plan was completed and FCC is prepared to report under the new standards.

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Net income[1]	$226.8 million	**Ahead:** at $280.2 million.	$318.4 million	Exceeded: at $459.2 million. Primarily due to a significant favourable variance in the provision for credit losses, mainly due to updates and adjustments to the allowance model and lower risk in the portfolio. Also contributing are favourable variances in net interest margins and administration expenses.
ROE[1]	11.2%	**Ahead:** at 14.0%.	14.5%	Exceeded: at 19.5%. Above the year-end target due to higher than target net income.
Efficiency ratio[2]	47.2%	**Ahead:** at 41.2%.	41.6%	Exceeded: at 35.9%. Primarily due to the favourable variance in net interest income, combined with lower than target administration expenses.
Debt-to-equity ratio[1,3]	7.5:1	Behind: at 8.4:1.	8.1:1	**Achieved:** at 7.4:1. Due to a higher than target equity balance compounded by a reduced requirement to borrow funds.

Notes:

1) Net income, total liabilities and total equity have been adjusted to reflect the current presentation of the non-controlling interest in a variable interest entity
2) The efficiency ratio was restated to include Investment in Agriculture spending
3) Loans receivable, total assets and total liabilities for 2010 have been restated as a result of a prior period adjustment

Corporate measures	2009-10 Target	2009-10 Results	2010-11 Target	2010-11 Results
Portfolio growth[3,4]	Primary production financing 5.24%	**Ahead:** at 13.69%.	7.7%	**Achieved:** at 7.9%. Primarily due to lower than target prepayments, partly offset by higher than target principal payments.
	Agribusiness and agri-food financing 10.26%	**Ahead:** at 23.18%.		
Venture capital invested	$67.3 million	**Ahead:** at $69.0 million.	$92.4 million	Behind/not achieved: at $66.1 million. Total capital outstanding is lower than target primarily due to timing of finding suitable investment opportunities under the Avrio Fund.

Notes:

3) Loans receivable, total assets and total liabilities for 2010 have been restated as a result of a prior period adjustment

4) The portfolio growth measure was updated and is now based on total portfolio growth and was moved to financial strength in 2010-11

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
Implement a financial management framework, integrating portfolio growth, risk, margins and returns	Continue to implement an economic capital management framework	**Achieved:** A governance and accountability framework was developed. A pilot report on buydowns was presented to the Asset and Liabilities Committee. To measure the market risk component of the economic capital management framework, an independent model validation of Value at Risk calculation results was created. Initial research commenced on a holistic capital management framework. The research phase of the project will run until June 2011 and framework development will continue until December 2011.
	Evaluate and update credit risk culture and practices in relation to evolving market conditions	**Achieved:** The lending culture statement was reinforced through ongoing communication. Results of an internal survey indicated that the majority of employees felt they received consistent messaging on risk management, pricing and growth. The survey also indicated that FCC continues to balance growth, risk and profit with a desired increase in quality.
Protect the corporation with sound enterprise governance, risk and compliance (GRC) practices	Continue implementation of enhanced internal controls	**On track:** A holistic analysis of the control environment surrounding BK-related processes is complete and observations are being incorporated in corporate processes.
	Update enterprise risk management framework	**On track:** The Enterprise Risk Management (ERM) framework is on track to further integrate ERM with corporate processes and policies, and enhance risk culture. Corporate risk appetite was researched.

Five-year strategic objectives	2010-11 Initiatives	2010-11 Results
	Enhance enterprise security measures	**On track:** An Enterprise Security program was created to safeguard FCC information assets, physical assets and employees in a co-ordinated, risk-based manner across the organization. The program consists of four project streams (Governance and Schedule Policy Creation, Information Asset Classification, Facilities and Personnel Security, and Program Assurance). Enterprise level policies were prepared for all four project streams.
	Implement policy and process changes to comply with new International Financial Reporting Standards	**Ahead:** The opening balance sheet was prepared using International Financial Reporting Standards (IFRS). Changes to accounting policies required for transition as well as key management disclosure requirements were presented to the Board's Audit Committee. A new requirement for quarterly reporting instituted by Treasury Board Secretariat resulted in the IFRS timelines being accelerated by nine months. All required deliverables to implement IFRS were completed. All processes required to complete the first set of IFRS-compliant financial statements were successfully tested. These processes will now transition into business as usual activities and will be monitored accordingly.

Financial performance review

Financial performance versus plan

Each year, as part of its strategic planning process, FCC develops a comprehensive corporate plan, which includes targets for various financial measures for the coming fiscal year. The chart below provides a comparison of the actual outcomes against key plan targets for 2010-11.

Profitable growth and effective financial management

(millions of dollars unless otherwise noted)	2011 Actual	2011 Plan
Portfolio growth		
Loans receivable	21,334.5	21,057.1
Loans receivable growth (%)	7.9	7.7
Net disbursements	6,153.2	6,089.9
FCC Ventures		
Investments – total capital outstanding	66.1	92.4
Investments – carrying value	58.0	83.3
FCC Management Software		
Net sales revenue	1.8	1.7
FCC Insurance		
Insurance premium income	18.1	17.0
Net insurance income	11.1	8.5
Portfolio profitability		
Net interest income	738.5	697.4
Net interest margin (%)	3.44	3.35
Credit quality		
Arrears	41.7	72.9
Impaired loans	241.4	294.8
Provision for credit losses	27.9	95.4
Allowance for credit losses	586.2	715.9
Efficiency		
Administration expense	270.8	294.2
Efficiency ratio (%)	35.9	41.6
Capital management		
Debt to equity ($ of debt per $ of equity)	7.4	8.1
Shareholder return		
Net income	459.2	318.4
Return on equity (%)	19.5	14.5

Financial performance versus prior year and outlook

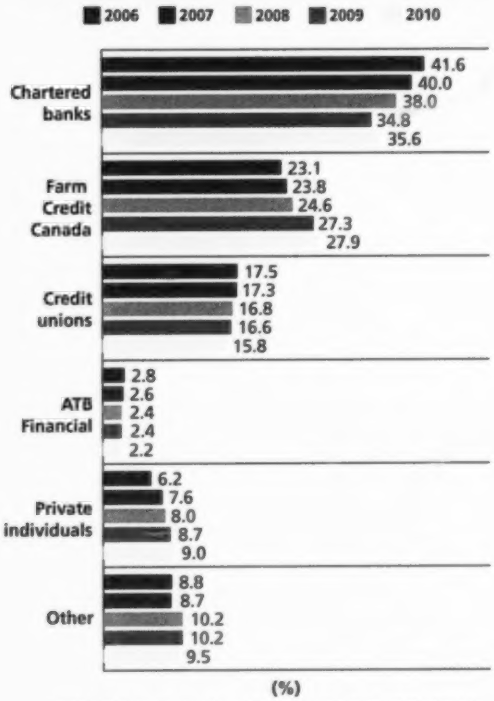
The remainder of the MD&A provides a review of year-over-year performance, as well as FCC's performance expectations for 2011-12.

Portfolio growth

Market share

According to Statistics Canada, farm debt outstanding increased by 6.1% to $66.4 billion in 2010. FCC increased its market share by 0.6% to 27.9% in 2010. FCC's proportion of Canada's outstanding farm debt of $18.5 billion remains second to the chartered banks at $23.6 billion.

Market share as at December 31*



*Historical results are also updated annually by Statistics Canada.

Lending activity

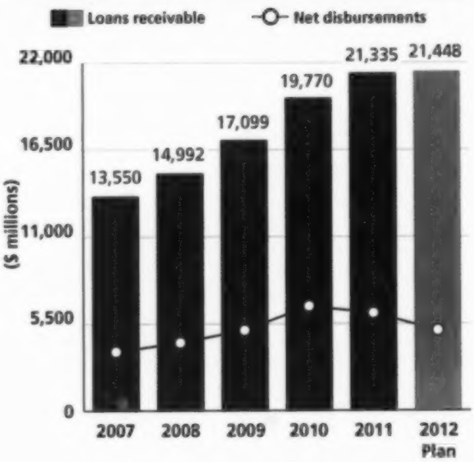
FCC lending activity is conducted through its lending business lines: primary production financing, agribusiness and agri-food financing, and FCC Alliances (point-of-sale financing) (refer to Lines of Business on page 52).

In 2010-11, FCC experienced its 18th consecutive year of growth. Loans receivable increased $1,565 million from $19,770 million in 2009-10 to $21,335 million in 2010-11. The rate of loan portfolio growth of 7.9% has slowed due to lower disbursement levels. Net disbursements decreased compared to the prior year by $433 million or 6.6% to $6,153 million. Renewal rates have increased by 0.4% to 97.7%, contributing to loan portfolio growth. This is offset by increased prepayments in the current year with the prepayment rate increasing by 0.3% to 5.4%.

The primary driver behind the growth in loans receivable was disbursements to primary producers in all major enterprises. Primary production and point-of-sale financing constitute 83.4% of FCC's net disbursements.

Growth is expected to continue to slow in 2011-12 with loans receivable increasing by $113 million, a growth rate of 0.5%. This decreased level of growth can be attributed to a projected reduction in net disbursements of $766 million to $5,387 million for 2011-12. The renewal rate is expected to decrease slightly to 96.0% in 2011-12 and prepayments are expected to increase to 6.5% in 2011-12.

Loans receivable*



*Loans receivable for 2010 have been restated as a result of a prior period adjustment.

Portfolio growth by enterprise

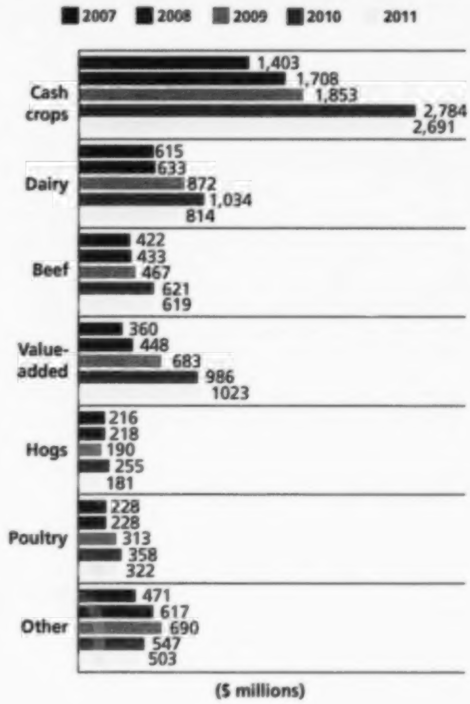
FCC lends to all agriculture enterprises, which diversifies the lending portfolio and reduces enterprise-specific risks. These practices align to the strategic themes addressing FCC's commitment to agriculture and financial strength by effectively managing risk to ensure FCC's long-term viability.

In 2010-11, net disbursements decreased compared to the previous year in all major enterprises except the value-added enterprise, which saw an increase of 3.8%. The value-added enterprise includes processing and activities that support primary enterprises. The most significant decreases in net disbursements were in the hog and dairy sectors, which experienced declines of 29.0% and 21.3% respectively.

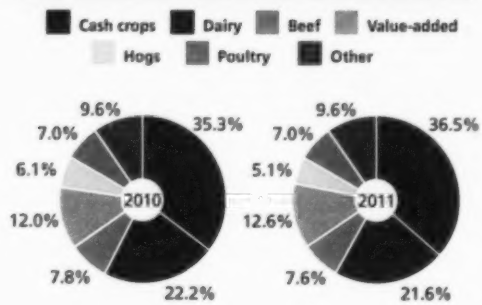
While net disbursements decreased in most major enterprises relative to 2009-10, this was offset by a decline in other portfolio activity including principal payments and net repayments, resulting in PND growth in all sectors with the exception of hogs. The hog sector decreased from 6.1% to 5.1% of FCC's total PND. PND grew year-over-year in the dairy and beef sectors; however, their respective shares of total PND decreased from 22.2% to 21.6% and 7.8% to 7.6%.

Cash crops continue to represent the largest portion of FCC's PND and net disbursements in 2010-11, representing 36.5% of total PND.

Net disbursements by enterprise



PND by enterprise



Portfolio growth by geographic area

By lending to all areas of agriculture across Canada, FCC spreads risk geographically while promoting agriculture as a strong and vibrant industry. From coast to coast, FCC has over 100 offices to serve its customers.

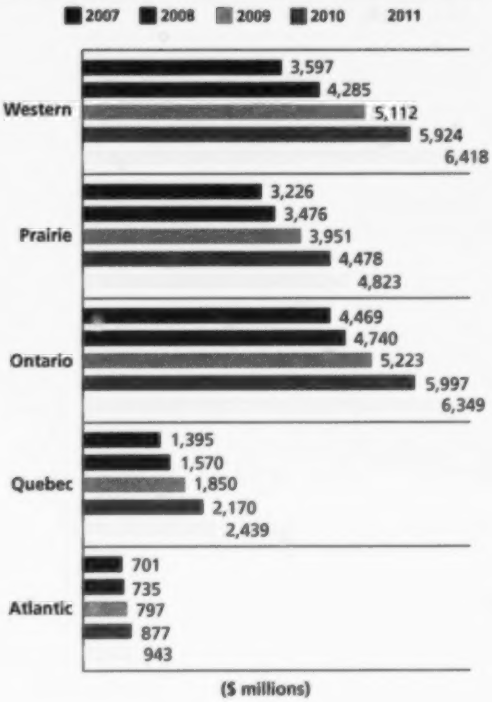
In 2010-11, FCC experienced PND growth across all areas of Canada. The largest PND growth areas continue to be Quebec and Western, which experienced 12.4% and 8.3% growth respectively.

In 2010-11, net disbursements decreased in the Western, Prairie and Ontario areas and increased in the Quebec and Atlantic areas. The largest decrease was seen in Ontario where net disbursements decreased 21.9%.

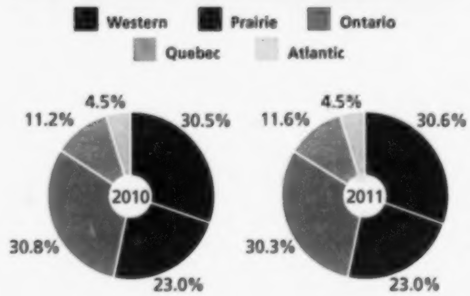
Western and Prairie comprised over half of PND and net disbursements. Their overall proportion of net disbursements increased by 1.1% to 58.0% from 2009-10.

Western was the largest individual contributor to PND in 2010-11 with its respective share increasing by 0.1%. The respective share of Ontario decreased by 0.5%.

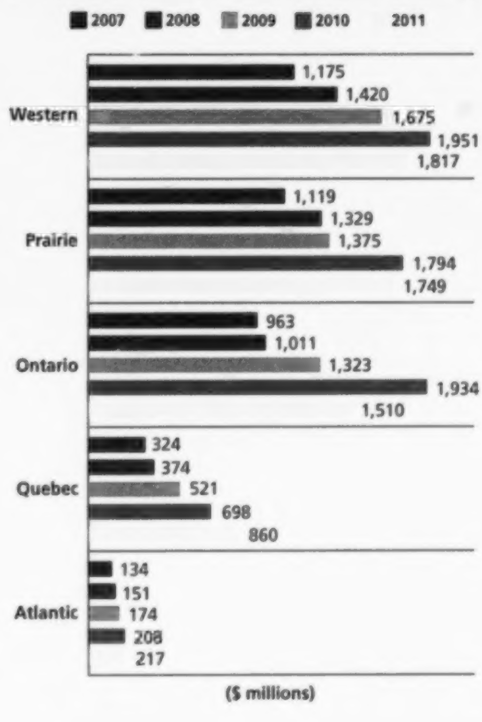
PND by area



PND by area



Net disbursements by area



Lines of business

FCC offers a combination of financing, insurance, management software, information and learning products and services to over 100,000 customers across Canada through its various business lines:

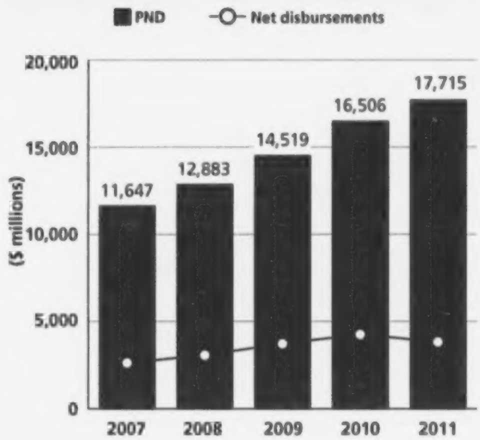
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

Each business line has specific products tailored to address the needs of Canadian agriculture. Lending products include standard loans with variable or fixed interest rates and many term, amortization and payment frequency options. Lending products are also available that include features such as principal payment and/or interest deferral, secured and unsecured revolving loans that can be paid down and re-advanced as needed, interest rates tied to customer credit quality and customized payment schedules linked to typical sector-based cash flow patterns. Lending is available for real and personal property purposes, through both loans and leases.

Primary production financing provides loans to primary producers and is FCC's largest business line. Customers with loans under this business line produce raw commodities in various enterprises such as crops, beef, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. This line of business also includes, but is not limited to, lending to vineyards, greenhouses, forestry and aquaculture.

Primary production comprised 84.5% of FCC's total PND in 2010-11. PND increased $1,209 million, resulting in a portfolio of $17,715 million. The rate of growth in PND decreased to 7.3%, from 13.7% the previous fiscal year. The primary driver was the decline in net disbursements of 10.1% in 2010-11 to $3,828 million.

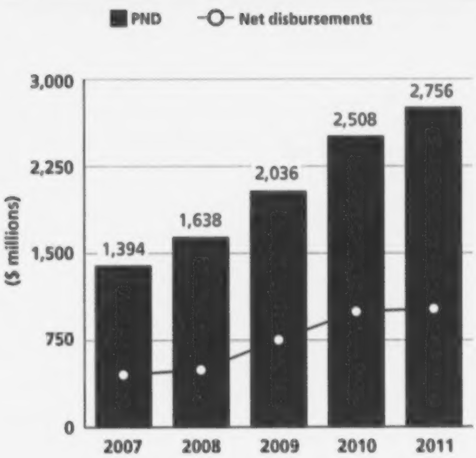
Primary production financing



Agribusiness and agri-food financing provides support to primary producers. These customers are typically suppliers or processors who are selling to, buying from or otherwise serving primary agriculture producers. These customers include, but are not limited to, equipment manufacturers, dealers, input providers, wholesalers, marketing firms and processors.

Agribusiness and agri-food showed growth in PND of 9.9% to $2,756 million. Net disbursements increased 2.5% to $1,019 million.

Agribusiness and agri-food financing

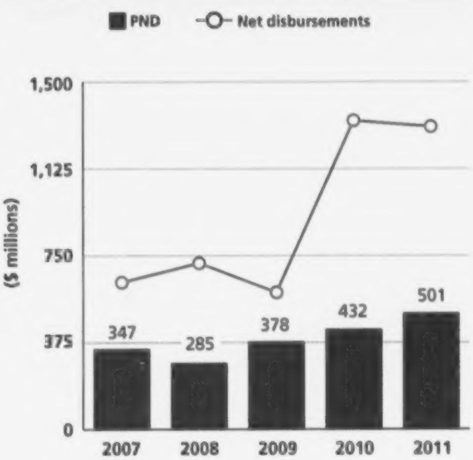


FCC's strategy is to optimize the primary production financing and agribusiness and agri-food financing portfolios. This strategy balances growth with market opportunity, volume and margin.

FCC Alliances is the largest contributor to FCC's financing for equipment, crop inputs and livestock point-of-sale business line. It lends to agriculture customers through a network of external agriculture or financial organizations, some of which include equipment dealers, crop input retailers, livestock operators and manufacturing partners. Through this network, FCC is able to provide efficient and effective products and services to its customers.

FCC Alliances showed growth in PND of 16.0% to $501 million. In 2010-11, net disbursements decreased by 2.0% to $1,306 million. Disbursements during the year exceed PND at the end of the year due to the short-term nature of the lending products in this business line.

FCC Alliances



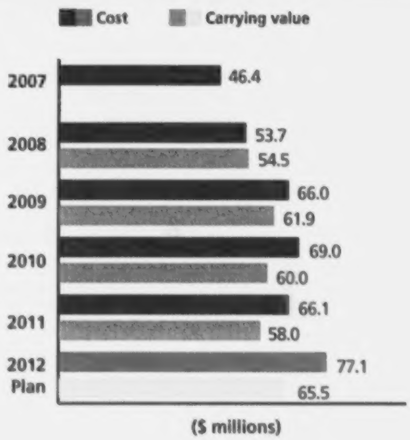
FCC Ventures is the corporation's venture capital business line, focused on addressing the need for alternative financing in the agriculture industry.

The venture capital portfolio includes investments made directly by FCC (FCC Fund), as well as investments made through the Avrio Ventures Limited Partnership fund (Avrio Fund). In 2006, FCC committed $50 million to this fund, which also attracted an additional $25 million from other limited partners interested in investing in the agriculture industry. The investment objectives of the fund are focused on commercialization-to-growth stage businesses operating in the industrial bio-products, food technology and nutraceutical ingredient sectors.

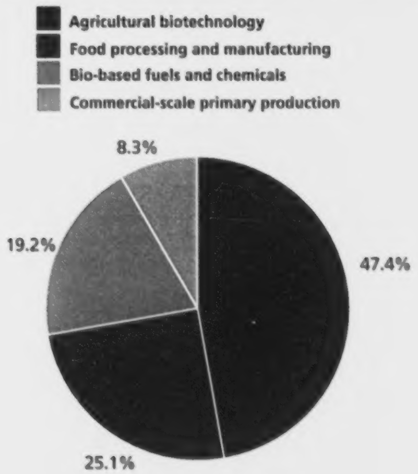
In 2010-11, FCC earned $4.4 million in income, primarily related to an equity pickup from an investee company over which the corporation holds significant influence and interest earned on debt investments. The carrying value of the total venture capital portfolio of $58.0 million includes $18.7 million held directly by FCC and $39.3 million in investments held in the Avrio Fund. Throughout 2010-11, $12.1 million in new investments was funded and the carrying value of the investment over which the corporation has significant influence increased by $2.8 million as a result of the equity pickup. These increases were offset by $13.3 million in payments and divestitures, $2.2 million in realized losses on divestitures and a $1.2-million decrease in fair value. Co-investment partners contributed an additional $1.1 million to individual investments made during the year. Further detail of the carrying value investment amounts can be found in Note 9 and Note 20 of the Notes to the Consolidated Financial Statements.

Despite the ongoing maturity and divestiture of existing investments, the venture capital portfolio is expected to continue to grow as FCC Ventures pursues new opportunities to expand the type and level of investment. On March 17, 2011, Avrio Ventures advised the limited partners that it has fulfilled the investment criteria for the Avrio Fund with its intention to launch a second fund. The corporation has approved an investment in this new fund subject to negotiation of suitable terms and conditions at closing.

Investments outstanding

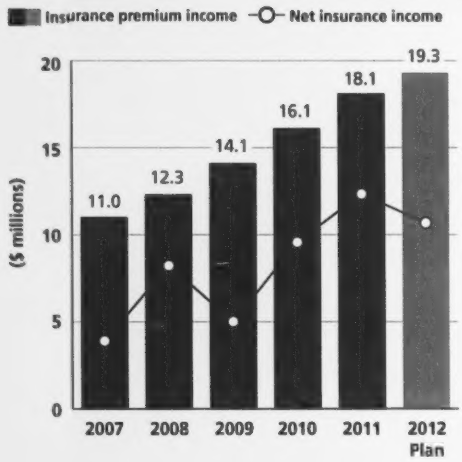


Investments outstanding by sector*



*Investments at cost

Insurance income



FCC Insurance offers loan, creditor life and accident insurance to provide protection to customers, their businesses and their families. SunLife Assurance Company of Canada administers FCC insurance programs.

Life insurance premiums, net of claims, contribute directly to FCC's net income. Insurance premium income has increased consistently over the last several years as a result of FCC's growing portfolio, as well as specific emphasis on insurance coverage as part of a customer's complete loan package. Life insurance premiums increased to $18.1 million in 2010-11 compared to $16.1 million in 2009-10. Net insurance income varies from year to year depending on claims paid. In 2010-11, total incurred claims were $7.0 million compared to $7.6 million the previous fiscal year, resulting in net insurance income of $11.1 million compared to $8.5 million in 2009-10.

FCC Learning is FCC's information and learning program that supports FCC's commitment to continued investment in agriculture. In 2010-11, 13,908 people attended 151 core FCC Learning events and 15,666 people participated in 137 events in FCC partner programs.

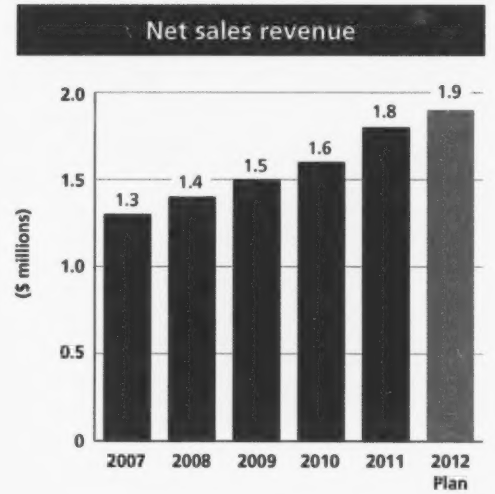
FCC offers several learning products aimed at addressing the increasingly sophisticated knowledge needs of primary producers and agribusiness operators. These products include:

- management workshops and learning tours
- FCC Forums
- partnership programs with industry partners
- the AgriSuccess bi-monthly magazine (formerly AgriSuccess Journal)
- the electronic newsletter, FCC Express
- e-learning tools, including webinars and video

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry.

FCC Management Software packages support the business of agriculture by providing valuable solutions to farmers that will help to ensure their success and viability. Its products include AgExpert Analyst and Field Manager PRO. AgExpert Analyst is financial management software designed specifically for farmers. Field Manager PRO is an electronic field record-keeping system for all types of crops.

In 2010-11, net sales revenue, including product support, increased by 12.5% to $1.8 million and is expected to reach $1.9 million in 2011-12.



Profitability

Net interest income and margin

Changes in net interest margin, along with changes in portfolio volume, are primarily responsible for the increase in net interest income (NII). The net interest margin must cover credit risk and administration expenses and yield a return sufficient for the organization to fund future growth.

The following table contains historical interest rate spreads and net interest margins. Interest rate spreads are the difference between the interest rates earned on interest-earning assets and the interest rates paid on interest-bearing liabilities.

Net interest margin

	2011		2010		2009		2008		2007	
($ millions)	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:										
Fixed loan principal balance	**6,369.6**	**5.97%**	6,557.1	6.25%	7,170.2	6.50%	6,601.5	6.63%	5,313.9	6.55%
Variable loan principal balance	**13,921.7**	**3.72%**	11,769.9	3.09%	8,562.1	4.89%	7,523.8	6.84%	7,507.4	6.76%
Investments	**995.9**	**0.80%**	874.4	0.27%	711.1	2.50%	645.5	4.44%	838.7	4.22%
Venture capital investments	**50.1**	**2.06%**	57.8	4.07%	57.2	5.39%	54.4	6.46%	40.9	12.26%
Total earning assets	**21,337.3**	**4.35%**	19,259.2	4.15%	16,500.6	5.58%	14,825.2	6.72%	13,700.9	6.66%
Total interest-bearing liabilities	**18,869.9**	**1.01%**	17,056.6	1.13%	14,440.3	2.86%	12,879.0	4.36%	11,933.0	4.17%
Total interest rate spread		**3.34%**		3.02%		2.72%		2.36%		2.49%
Impact of non-interest – bearing items		**0.10%**		0.14%		0.33%		0.58%		0.58%
Net interest margin		**3.44%**		3.16%		3.05%		2.94%		3.07%

Interest rates on total earning assets increased from 2009-10 to 2010-11 due to increasing rates on FCC variable rate loans as the Bank of Canada raised the overnight rate. In addition, the interest rate on FCC's debt decreased due to reduced interest expenses arising from debt repurchases. In 2009-10, FCC incurred $65.3 million in additional expense related to the repurchase of $1,086.3 million in capital market debt. In 2010-11, FCC repurchased a further $209.9 million in capital market debt at a cost of $17.0 million and recognized $19.3 million related to the amortization of fair value gains resulting from debt repurchases completed in prior years. The net impact in 2010-11 of total debt repurchases is an increase in NII of $2.3 million. The $67.6 million increase in NII impact from 2009-10 to 2010-11 is a key contributor to the increase in the net interest margin.

The following table outlines the year-over-year increases to NII and outlines changes caused by shifts in portfolio volume and net interest margin.

Net interest income and margin

($ millions)	2012 Plan	**2011**	2010	2009	2008	2007
Net interest income	738.9	**738.5**	609.9	508.0	434.4	415.5
Average total assets	21,908.2	**21,462.3**	19,290.2	16,649.9	14,764.7	13,530.6
Net interest margin (%)	3.37	**3.44**	3.16	3.05	2.94	3.07
Year-over-year change in net interest income due to:						
Increase in volume	14.5	**56.2**	81.7	39.9	32.9	33.7
Changes in margin	(14.1)	**72.4**	20.2	33.7	(14.0)	(6.6)
Total change to net interest income	0.4	**128.6**	101.9	73.6	18.9	27.1

FCC experienced growth over the previous year in both NII and margin. NII increased by 21.1% to $738.5 million and average total assets increased by 11.3% to $21,462.3 million due to the increase in loans receivable. Net interest margin is expected to drop to 3.37% in 2011-12. This is due to both an expected decrease in lending margins and a narrowing of the spread between the rate FCC earns on its assets and the rate it pays on its debt. In 2010-11, FCC's borrowing costs remained extremely low as demand for government debt continued to remain strong, keeping rates low relative to assets. In 2011-12, interest rates and competition are anticipated to increase resulting in decreased margins.

Other income

FCC generates income through its non-lending business lines including FCC Ventures, FCC Insurance and FCC Management Software products and support sales. In 2010-11, FCC experienced a 55.2% increase in income to $16.0 million from these non-lending sources. This increase was primarily due to FCC's share of earnings in a venture capital investment over which the corporation has significant influence and an increased level of net insurance income. These income sources are expected to decrease to $11.6 million in 2011-12.

Credit quality

As part of FCC's strategy to deliver an extraordinary customer experience and support Canadian agriculture, the corporation continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs to assist sectors experiencing extraordinary challenges. FCC also provides several products that have payment deferral options, providing flexibility in payments to support customers in challenging times, as well as in times of opportunity.

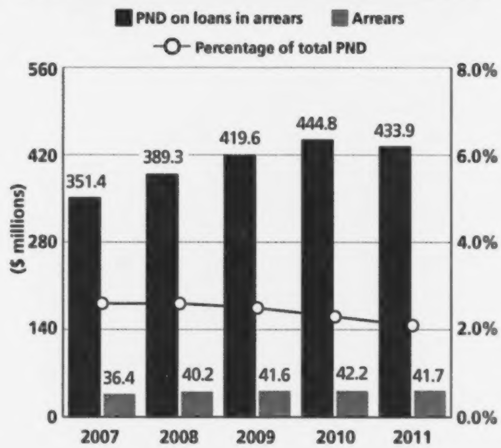
While these payment schedule adjustments are used to assist customers, it is important to note that these programs and payment deferral options may understate the impact of economic events on arrears and impaired loans. These programs offer the customer increased payment flexibility in a variety of ways, including enabling the customer to amend the payment schedule on a loan. The number of customers using these support programs and deferral options is closely monitored to gauge the overall health of the portfolio and ensure proper risk management practices are employed.

FCC has sound business practices in place for analyzing credit quality and monitoring loans in arrears and impaired loans. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risk is within acceptable tolerances. In addition to the allowance for credit losses, FCC has the ability to withstand further losses due to its strong equity position.

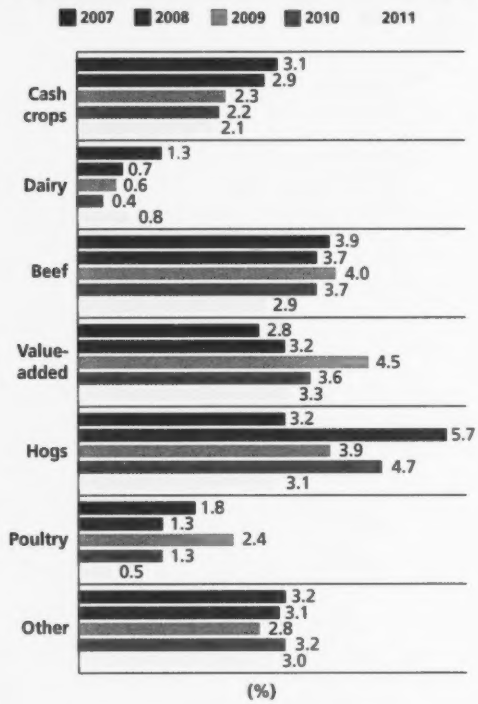
Arrears

In 2010-11, PND on loans in arrears decreased by 2.5% to $433.9 million, and arrears decreased by 1.2% to $41.7 million. PND on loans in arrears, as a percentage of total PND, improved by 0.2% to 2.1%, which reflects effective mitigation of risk through portfolio diversification and sound credit risk practices. Arrears are anticipated to increase to $84.7 million in 2011-12 as a result of an increased level of risk and expected portfolio growth.

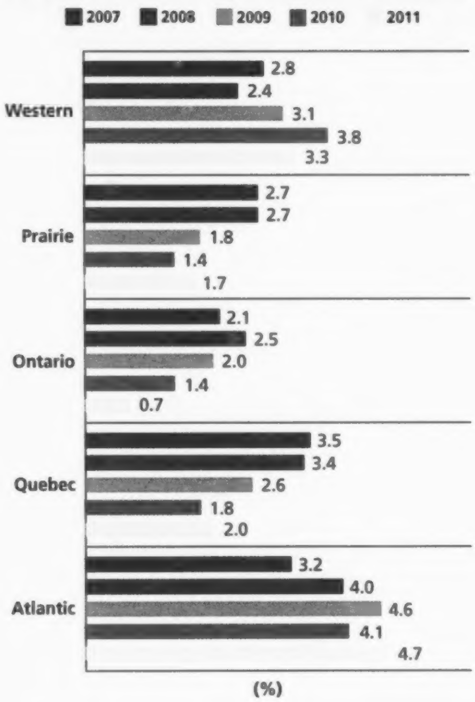
Arrears



PND on loans in arrears as % of enterprise PND



PND on loans in arrears as % of area PND



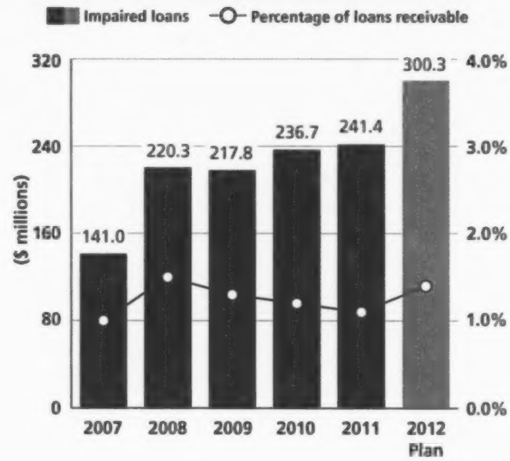
Impaired loans

In 2010-11, impaired loans increased by $4.7 million from the previous fiscal year to $241.4 million. Impaired loans as a percentage of loans receivable improved by 0.1% to 1.1%. In 2011-12, impaired loans are projected to increase by $58.9 million to $300.3 million due to an increase in the level of risk and growth in loans receivable.

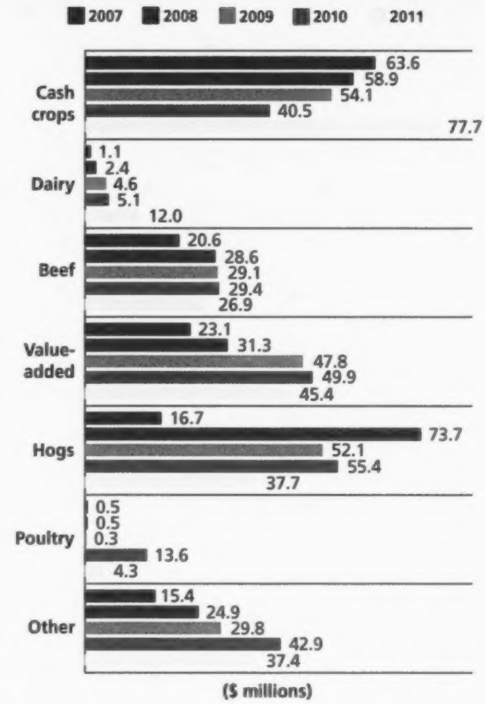
At an enterprise level, impaired loans for cash crops experienced the largest year-over-year increase of $37.2 million to $77.7 million. The hog enterprise experienced the largest year-over-year decrease of $17.7 million to $37.7 million.

FCC customer support programs, addressed earlier, give FCC employees the opportunity to proactively provide support to individual customers or enterprises during financial difficulties. In 2010-11, FCC made 1,819 payment schedule adjustments, 374 of which were part of its enterprise-specific support programs. Payment schedule adjustments as a percentage of PND decreased from 4.5% in 2009-10 to 3.3% in 2010-11.

Impaired loans



Impaired loans by enterprise



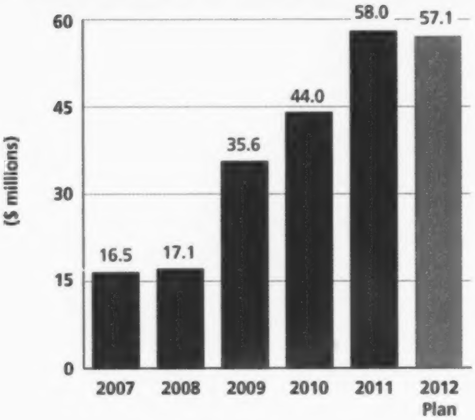
Writeoffs

Loan amounts deemed uncollectible by management are considered in default and may result in full or partial writeoffs, depending on the level and value of security on hand.

In 2010-11, the amount of writeoffs, net of recoveries, increased to $58.0 million. Writeoffs as a percentage of loans receivable increased from 0.2% to 0.3%.

Writeoffs are projected to decrease by $0.9 million or 1.6% in 2011-12 to $57.1 million. Writeoffs as a percentage of loans receivable are expected to remain at 0.3%. Additional losses may be realized as a result of ongoing economic conditions.

Writeoffs*

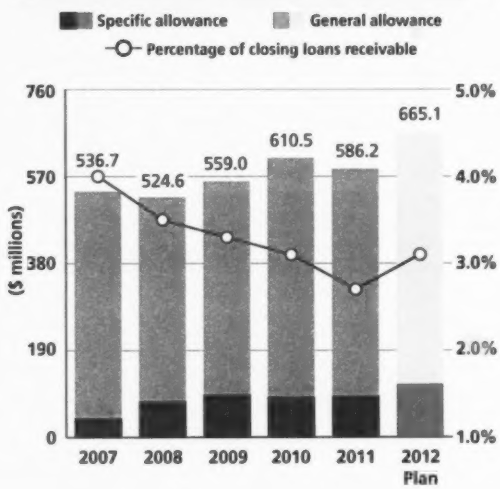


*Net of recoveries

Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect the estimated realizable value. In addition to the use of indicators, such as loans in arrears and impaired loans, management must rely on estimates and judgment when assessing the appropriate level of realizable value. These factors, coupled with changes in the external operating environment, may cause the realized credit losses to be materially different from current assessments, resulting in the need for an increase or decrease in the provision for credit losses.

Allowance for credit losses



The allowance for credit losses has two components:

Specific allowance – provides for management's best estimate regarding incurred losses on specific loans that have become impaired. It is the shortfall between the realizable amount from the security provided on the loan and the total amount outstanding on the loan at the time of impairment.

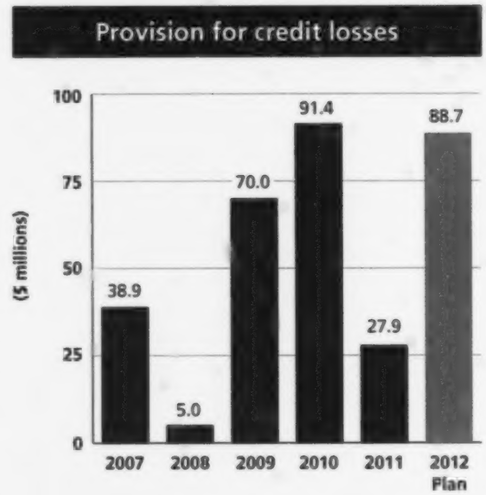
General allowance – provides for management's best estimate of incurred losses that exist in the portfolio that have not been specifically identified as impaired. Analysis to determine the general allowance considers loans that have shown some deterioration in credit quality. It also estimates unidentified losses in response to recent events or changes in economic conditions, as well as losses that may be caused by general economic trends. Using this analysis, management can provide for credit losses within the portfolio that have not yet manifested themselves as observable deterioration on specific loans.

In 2010-11, the allowance for credit losses decreased to $586.2 million, $24.3 million lower than the previous fiscal year. The decrease was due to updating the parameters in the model used to calculate the allowance for credit losses as well as improved portfolio health. The updated parameters reflect FCC's lower than expected loss experience in recent years. The allowance for credit losses as a percentage of closing loans receivable decreased from 3.1% to 2.7%. The allowance is expected to increase by 13.5% to $665.1 million in 2011-12.

Provision for credit losses

Once the allowance for credit losses and writeoffs are determined by management, the provision for credit losses is charged against net income by an amount necessary to bring the allowance for credit losses to the appropriate level.

To bring the allowance to the appropriate level of $586.2 million, the provision for credit losses decreased to $27.9 million in 2010-11. In 2011-12, the provision is expected to increase to $88.7 million as a result of an increase in the level of risk and the growth in loans receivable.

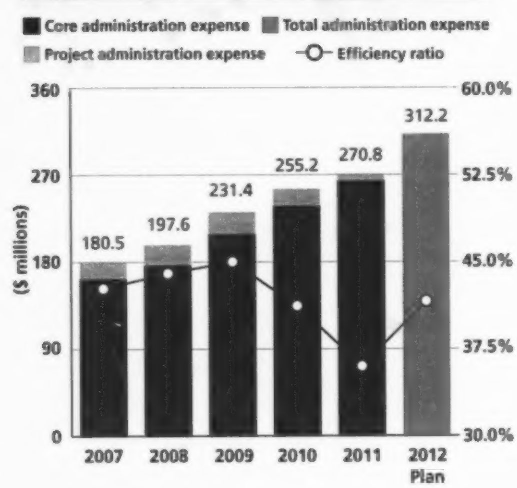


Efficiency

The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates efficient use of corporate resources. FCC administration expenses are broken down into core expenses and project expenses. Core expenses represent costs associated with the day-to-day operation of FCC, and include such costs as salaries and benefits and travel and training expenses. Project expenses are costs related to specific projects undertaken by FCC to support operations and the achievement of strategic goals.

Core expenses increased by $26.0 million to $263.9 million in 2010-11. Project expenses in 2010-11 decreased by $10.4 million to $6.9 million as more project resources were utilized for capital projects compared to 2009-10. Although total administration expenses increased in 2010-11, the efficiency ratio improved from 41.2% to 35.9% due to higher net interest income.

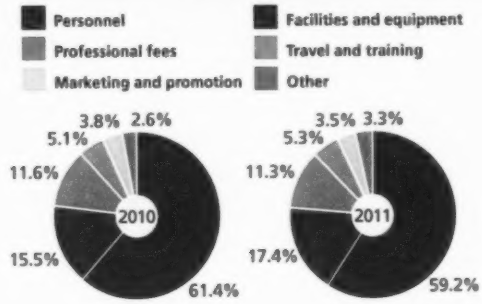
Efficiency ratio



In 2010-11, the largest increases in total administration expense were in the categories of facilities and equipment and personnel. The increases were primarily due to the amortization of software expenditures and resource requirements to support growth of the business and strategic initiatives. Facilities and equipment as a percentage of total administration expenses increased by 1.9% to 17.4%. Personnel continues to represent the largest proportion of total administration expenses in 2010-11 at 59.2%.

Total administration expenses are projected to increase to $312.2 million in 2011-12 and the efficiency ratio is expected to increase to 41.6%. FCC will work diligently to contain costs below this projection. Growth in administrative expense will be necessary to support continued portfolio growth, normal inflationary pressures and additional depreciation on current capital projects.

Administration expenses by category



Funding and liquidity

Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program and continues to carry capital market debt that was raised prior to that date.

During 2010-11, FCC raised short- and long-term funds through the following programs:

- Domestic Commercial Paper Program (for U.S. dollars)
- Crown Borrowing Program

Short-term funding

Short-term funding consists of borrowings with a term to maturity of one year or less. Funding is raised through the Domestic Commercial Paper Program and the Crown Borrowing Program. The outstanding short-term borrowings at March 31, 2011, were $8.0 billion compared to $8.8 billion at March 31, 2010. Of the total short-term borrowings outstanding, $7.6 billion were funds from the Crown Borrowing Program.

Long-term funding

Long-term funding consists of all borrowings with a term to maturity of more than one year, which includes fixed-rate borrowings and floating rate notes. Floating rate notes are borrowings with a term to maturity of more than one year that have a floating interest rate that resets based on one-month or three-month T-bill rates. In 2010-11, FCC borrowed a total of $5.8 billion in long-term funds, down from $6.5 billion the previous fiscal year. In 2010-11, all long-term borrowing was through the Crown Borrowing Program.

Overall, the total growth in funding during 2010-11 was an increase of $1.2 billion or 6.7%. This is consistent with the overall growth of the loan portfolio of $1.6 billion or 7.9%, during the same time period.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2010-11, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings as of March 31, 2011, are detailed below.

Credit ratings

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	AAA	A-1+

Financial instruments

Most of FCC's balance sheet is comprised of financial instruments that include, but are not limited to, items such as cash, loans receivable and investments. The use of financial instruments exposes FCC to interest rate and, to a lesser extent, foreign exchange rate fluctuations. As part of its overall liability management, FCC uses derivatives to hedge risks and reduce income volatility to help ensure FCC's long-term profitability. Derivative risk management is discussed further in Note 24 of the Notes to the Consolidated Financial Statements. Fair value measurement of FCC's financial instruments is described in Note 20 of the Notes to the Consolidated Financial Statements.

Cash flow

Cash and cash equivalents have decreased $26.2 million from $628.0 million at March 31, 2010, to $601.8 million at March 31, 2011. In 2010-11, cash of $454.9 million and $1.2 billion was provided by operating and financing activities respectively, and $1.7 billion was used in investing activities.

Capital Management

Capitalization

FCC's gross assets are $22,496.2 million, of which $3,354.8 million are supported by equity and allowance for credit losses. At this level of capitalization, 14.9% of assets do not require external debt financing. Capitalization is expected to increase to 15.9% in 2011-12, due to lower portfolio growth relative to growth in retained earnings.

($ millions)	2012 Plan	**2011**	2010	2009	2008	2007
Equity:						
Capital	547.7	**547.7**	547.7	547.7	547.7	547.7
Retained earnings	2,186.3	**2,025.7**	1,584.3	1,321.0	1,132.0	914.4
Non-controlling interest in variable interest entity	17.1	**13.4**	9.5	7.6	0.2	0.0
Accumulated other comprehensive income	187.7	**181.8**	203.6	407.2	97.1	0.0
Subtotal	2,938.8	**2,768.6**	2,345.1	2,283.5	1,777.0	1,462.1
Allowance for credit losses	665.1	**586.2**	610.5	559.0	524.6	536.7
Total capitalization	3,603.9	**3,354.8**	2,955.6	2,842.9	2,301.6	1,998.8
Gross assets not requiring debt financing (%)	15.9	**14.9**	14.1	15.5	14.4	13.9

Debt to equity

FCC uses debt to equity as a key measure to assess capital adequacy. It is also used in financial management as a measure of the corporation's ability to fund future growth and meet long-term obligations. Monitoring debt to equity helps to ensure continued self-sustainability and financial viability.

FCC continues to be below its legislated limit of debt to equity, which is 12:1.

From 2009-10 to 2010-11, FCC's debt-to-equity ratio improved from 8.4:1 to 7.4:1. In 2011-12, this ratio is projected to improve further to 6.9:1. A contributing factor to this improvement is the relationship between portfolio and equity growth. When growth in equity exceeds portfolio growth, the debt-to-equity ratio decreases due to a reduced requirement for borrowed funds. In 2010-11, growth in equity was 20.8%, which exceeded the portfolio growth of 7.9%.

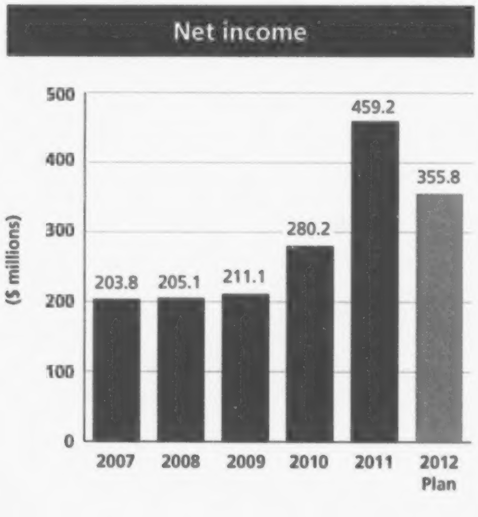
Shareholder return

FCC uses three key corporate measures to determine its overall success toward financial strength: net income, return on equity and debt to equity. As discussed above, debt to equity improved from 8.4:1 in 2009-10 to 7.4:1 in 2010-11, due to the growth in equity exceeding the portfolio growth.

Net income

As part of its commitment to agriculture, FCC reinvests its earnings in agriculture through financing portfolio growth and developing new products and business services that support the industry.

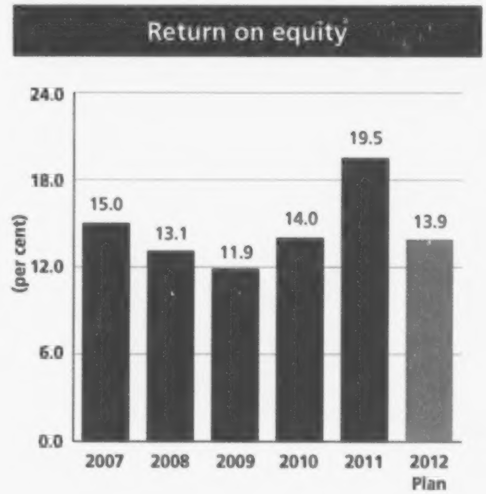
Net income is composed of net interest income and other income, provision for credit losses, administration expenses and fair value adjustments. In 2010-11, net income increased by $179.0 million from the previous fiscal year, primarily due to the increased level of net interest income and the decrease in the provision for credit losses. These increases were offset by increases in administration expenses. Net income is projected to decrease 22.5% in 2011-12, mainly due to the lower net interest margins, a higher provision for credit losses and increased administrative expenses.



Return on equity

This ratio measures FCC's efficiency at using its existing equity base to generate income. It is used to evaluate financial performance, viability and the corporation's ability to fund future growth and strategic initiatives.

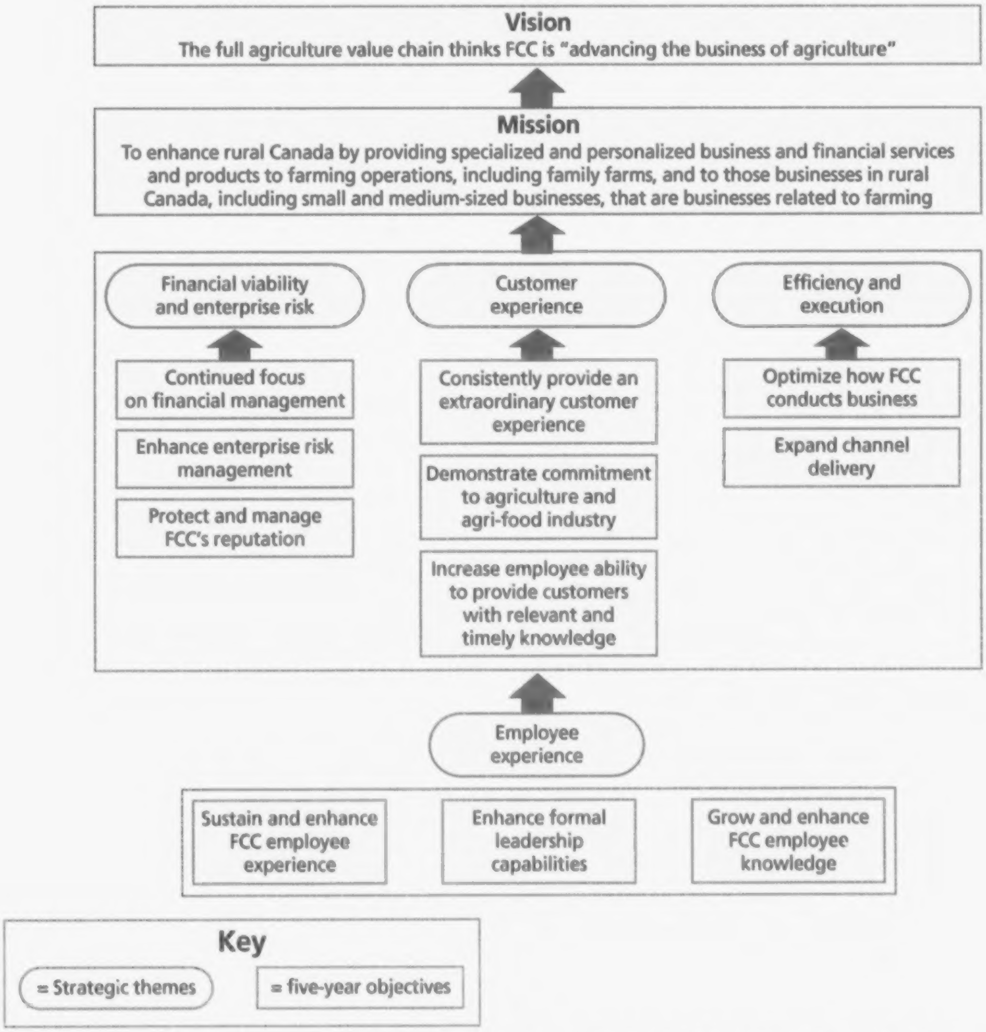
Return on equity increased to 19.5% in 2010-11 from 14.0% in 2009-10. The year-over-year increase was due to increased net income. Return on equity is projected to decrease to 13.9% in 2011-12. The decrease is mainly due to the lower net interest income, an increase in the provision for credit losses and higher administration expenses.



2011-12 Future targets, objectives and initiatives

FCC uses four strategic themes for corporate planning purposes. A corporate strategy map illustrates how the 11 five-year strategic objectives within these themes work together towards achieving FCC's vision and mission. The Employee experience theme and related objectives is foundational. Employee leadership, expertise and knowledge support FCC in executing the other three themes and initiatives. Together, these 11 objectives lead to accomplishing the corporate vision and mission.

Strategy map



The 2011-12 corporate scorecard outlines how we plan to continue providing products, services and knowledge tailored to the unique needs of the agriculture and agri-food industry.

Theme: Customer experience

Critical outcome

In 2020, FCC continues to deliver an extraordinary experience to customers. The Customer Experience Index score indicates that two out of three customers (65%) rate their experience with FCC as 5 out of 5.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Customer experience index	60	60	60
Total lending to young farmers	$1.48 B	$1.73 B	$1.87 B
Number of learning program participants	10,500	11,000	11,250

Five-year strategic objectives	2011-12 Initiatives
Consistently provide an extraordinary customer experience	Continuously improve the customer experience by analyzing feedback and implementing relevant actions
	Implement alliance process redesign with external alliances
	Develop tailored service by market segment, including specialized expertise for large loans
	Implement web strategy
Demonstrate commitment to the agriculture and agri-food industry, with a particular focus on producers and young farmers	Enhance programs to support young farmers
	Implement knowledge offering that adds value to customers
	Increase collaboration with Agriculture and Agri-Food Canada on key issues impacting sector
	Enhance venture capital offering
Increase employee ability to provide customers with relevant and timely knowledge	Define agriculture/finance knowledge expectations of customer-facing staff and integrate with sales process
	Offer employees additional information to share with customers, including sector-specific knowledge, publications and key messages

Theme: Efficiency and execution

Critical outcome

In 2020, FCC continues to be recognized as a highly efficient, effective and agile organization that is easy to do business with. The corporation has an efficiency ratio of 45% or lower.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Efficiency ratio	41.6%	41.3%	41.1%
Employee engagement (easy to do business indicators)[1]	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers

1) Easy to do business indicators include: co-workers, physical work environment; resources; work processes; work tasks

Five-year strategic objectives	2011-12 Initiatives
Optimize how FCC conducts business	Implement business process and technical transformation program (BK)
	Implement optimization strategy
	Implement new property valuation software
	Develop corporate-wide business process management
	Implement information management program
Expand channel delivery	Develop integrated channel delivery strategy
	Enhance e-business strategy
	Create strategy to enhance customer access to approved credit

Theme: Employee experience

Critical outcome

In 2020, FCC continues to be an employer of choice, with a culture that inspires employees to deliver an extraordinary customer experience. FCC's employee engagement score is greater than or equal to the average of the top 50 Canadian employers.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Employee engagement index	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
Employee index: (employee experience indicators)[1]	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
Leadership index: (subset of employee engagement survey data leadership indicators)[2]	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers	Greater than or equal to the average of the top 50 employers
Learning measure	Establish measure	TBD	TBD

1) Employee experience indicators – scores on the following drivers are averaged to calculate the score: career opportunities; learning and development; intrinsic motivation; managing performance; work/life balance

2) Leadership indicators – scores on the following drivers are averaged to calculate the score: senior leadership; manager; recognition; career opportunities; managing performance

Five-year strategic objectives	2011-12 Initiatives
Sustain and enhance FCC employee experience	Implement updated culture strategy
	Enhance workforce through the employment equity plan and diversity strategy
	Implement training to foster leadership at all levels
Enhance formal leadership capabilities	Implement leadership and succession planning
	Enhance workforce planning
Grow and enhance FCC employee knowledge	Implement Lending Essentials program
	Improve employee access to specialized agriculture and finance knowledge via intranet, collaboration tools, podcast and web

Theme: Financial viability and enterprise risk

Critical outcome

In 2020, FCC has a diversified agriculture, agribusiness and agri-food portfolio. The corporation has remained financially viable and self-sustaining, with a strong balance sheet and an ROE of greater than or equal to 12%.

Corporate measures	2011-12 Target	2012-13 Target	2013-14 Target
Net income	$355.8 M	$378.9 M	$408.2 M
Return on equity	13.9%	12.9%	12.3%
Debt-to-equity ratio	6.9:1	6.5:1	6.2:1
Portfolio growth	3.3%	7.0%	7.0%
ERM maturity measure	Establish measure	TBD	TBD
RSPS risk score	770 pts	770 pts	770 pts
Media favourability index	7 points above global average for financial institutions	7 points above global average for financial institutions	7 points above global average for financial institutions

Five-year strategic objectives	2011-12 Initiatives
Continued focus on financial management	Research and develop economic capital management framework
Enhance enterprise risk management (ERM)	Enhance internal controls
	Implement amended ERM framework
	Implement enhanced enterprise security
Protect and manage FCC's reputation as an ethical corporation with high integrity	Implement integrated reputation management strategy
	Benchmark FCC's environmental footprint

Enterprise risk management

Managing risks to protect the corporation and create value

As a financial institution, risk is inherent in virtually every decision. Whether lending to customers, defining business priorities or deciding where to invest in the business, potential risks are taken into account.

FCC is diligent about enterprise risk management (ERM). ERM is integrated with strategic planning across business lines and corporate initiatives.

Risk governance

The Board of Directors oversees FCC's risk governance framework, which is supported by a number of policies and committees that guide corporate decision-making.

Potential risks are identified and analyzed through external scanning, consultation with internal subject matter experts and by other means. FCC's Senior Leadership Team helps to identify the top enterprise risks, which are then presented to the Board for input. Members of the Executive Management Team (EMT) create risk mitigation plans, monitor progress, and report to the Board on a quarterly basis through the corporate scorecard.

A number of internal committees develop and monitor aspects of FCC's overall risk management policies, processes and practices. These committees report regularly to the CEO and to EMT as required, or to the Board of Directors.

Board of Directors and committees of the Board

The Board of Directors oversees risk management and ensures that policies, control systems and practices are in place to manage key business and financial risks. Three committees assist the Board in fulfiling its oversight responsibilities.

The **Audit Committee** of the Board ensures that management has identified key risks and reasonable policies, control systems and practices are in place to manage them and monitor effectiveness of remediation plans.

The **Human Resources Committee** reviews major human resources policy matters, the corporation's succession plan, and advises the Board of Directors on matters related to the CEO.

The **Corporate Governance Committee** reviews and makes recommendations to the Board with respect to sound governance practices.

FCC management risk committees

The **CEO** and **Executive Management Team** are responsible for corporate decision-making, including the business strategy, enterprise risk management, investment strategy, allocation of enterprise resources and resolution of major strategic issues.

FCC's **Senior Leadership Team** provides input to setting corporate priorities to achieve strategic objectives consistent with the mandate and approved direction.

The **Asset Liability Committee (ALCO)** directs FCC's asset/liability management function, including establishing and maintaining portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets.

FCC's **Credit Committee** reviews and makes lending decisions on agribusiness and agri-food loan applications from customers with a total exposure in excess of $10 million for established operations and in excess of $5 million for start-up operations. The committee reviews loans in primary production from customers with total exposure in excess of $15 million for established operations and in excess of $7.5 million for start-up operations.

The **Credit Policy Committee** oversees lending policies to ensure that they reflect FCC's credit risk tolerance, industry best practices and comply with federal, provincial and regional laws and regulations.

The **Employee Experience Committee** provides direction and guidance on key aspects of the FCC employee experience, orientation and change management.

The **ERM Steering Committee** reviews and recommends FCC's ERM framework, policies and strategies, and subsequent enhancements to EMT, and approves the annual top corporate risk action plans.

The **Horizon Committee** provides strategic direction to EMT on compensation and performance management issues. The committee also evaluates all jobs in relation to FCC's classification system.

The **Pension Committee** provides advice to the Human Resources Committee of the Board regarding monitoring the approved governance structure for the pension plan.

The **Security Co-ordination Committee** oversees the design and development of FCC's security policy and principles to ensure the protection of FCC employees and assets.

The **Strategy Execution Team** approves corporate projects that enable the execution of the business strategy.

The **Venture Capital Investment Committee** adjudicates all investment recommendations and monitors the performance of the FCC Fund venture capital investments.

Board and Board Committees

- Board of Directors
- Audit Committee
- Corporate Governance Committee
- Human Resources Committee

Senior Management

- CEO
- Executive Management Team
- Senior Leadership Team

Management Committees

- Asset Liability Committee (ALCO)
- Credit Committee
- Credit Policy Committee
- Employee Experience Committee
- ERM Steering Committee
- Horizon Committee
- Pension Committee
- Security Co-ordination Committee
- Strategy Execution Team
- Venture Capital Investment Committee

FCC's principal risks

Risk is the potential for an event, action or inaction that may threaten FCC's ability to achieve its business mandate and objectives. FCC has five principal risks: credit, market, operational, strategic and reputation.

Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to the corporation. This is the most significant risk that the corporation faces.

Overall, the Board of Directors is responsible for approving the organization's credit risk tolerance and relies on a number of committees, divisions and departments to effectively manage credit risks that impact the corporation.

Assessment of credit risk starts with individual transactions. FCC lending and credit risk staff assess and manage credit risk by ensuring that individual loans are consistent with defined policies and guidelines.

In addition to managing credit risk at the transactional level, the Portfolio and Credit Risk Division assesses credit risk at the aggregate level by providing assessment tools and models that quantify risks, establish the required allowance for loan and lease losses and monitor capital adequacy. Policies, processes, systems, internal controls and strategies are used to manage the credit risk of the portfolio. FCC also closely monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and practices are appropriate and relevant.

Further details on how FCC manages credit risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Market risk

Market risk is the potential for loss due to adverse changes in underlying market factors, such as interest rates and foreign exchange rates.

Market risk policies are regularly reviewed by ALCO and approved by the Board of Directors. The Treasury division implements market risk management directives and reports regularly to ALCO and the Board of Directors on its activities and asset/liability positions.

FCC has market risk policies and limits in place to ensure that exposure to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. Market risk management at FCC also encompasses derivative fair value risk and liquidity risk. Policies include limits around the variability of net interest income and the market value of portfolio equity relative to interest rate changes.

Liquidity risk is minimized through the use of a liquid investment portfolio, funding through the Crown Borrowing Framework and access to an operating line of credit.

Further details on how FCC manages market risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Operational risk

Operational risk relates to the potential of direct or indirect loss due to inadequate or failed internal processes, people, systems or external events, and failure to comply with or adapt to legislative or regulatory requirements or litigation.

FCC is committed to preserving customer and shareholder value by proactively managing operational risk. Managers are responsible to manage operational risk by ensuring that appropriate policies and procedures are in place within their business units, and that internal controls are operating effectively.

FCC's Field Operations Audit program examines lending activities and provides learning opportunities for continuous improvement in the areas of risk assessment and mitigation, compliance to lending policy, and data integrity.

Incidents of fraud may affect customer and public perceptions of FCC, and impact their willingness to do business with the corporation. FCC reduces exposure to fraud risk by implementing a Board-approved fraud risk management policy and delivering fraud awareness training to staff.

To ensure that the corporation can sustain operations in the event of a business disruption, FCC actively updates and tests its business continuity management program.

Enterprise security is addressed through a cross-divisional security co-ordination team that promotes security policies, best practices and incident handling strategies that optimize privacy and protection for human, physical, information (customer, corporate and employee) and technology assets.

FCC is entering the final stages of implementing a major information technology (IT) systems renewal that will streamline and automate many business processes, ensuring that the IT infrastructure can support business into the future. Risks related to the project are mitigated by extensive risk governance and reporting, ongoing reviews by Internal Audit and an external consultant, and change management and training activities.

Strategic risk

Strategic risk refers to risks related to the external environment and includes competitors as well as the corporation's ability to develop and implement effective business strategies.

Executive management develops corporate strategy annually, with oversight provided by the Board of Directors. Progress on the strategic plan is monitored through quarterly reporting to senior management and the Board of Directors. The external environment is monitored (including the Canadian financial marketplace and the agriculture industry) to discern if strategic changes are required to address emerging risks. FCC regularly communicates with the federal government to ensure alignment of the corporation's activities with government priorities.

Reputation risk

Reputation risk is the risk that key stakeholders and other publics may develop negative perceptions about FCC that could adversely affect the corporation's reputation and its ability to attract and retain customers, business partners and employees.

As a federal Crown corporation, FCC is accountable to all Canadians. To avoid real or perceived reputational damage, FCC has a robust governance structure in place, including policies and procedures to guide employee conduct in interactions with colleagues, customers, industry partners, suppliers, media and the general public.

Consideration of integrity and the potential impact on FCC's reputation from conducting business with any particular individual is part of the lending process. The loan application process requires customers to sign a declaration stating that they know of no reason why FCC may have any concern with their business. FCC will only lend to individuals with personal integrity.

Changes in accounting standards

Current changes

Consolidated financial statements and non-controlling interest

On April 1, 2010, the corporation early adopted the Canadian Institute of Chartered Accountants Handbook Section 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests. As a result of adopting the new standards, the non-controlling interest of the corporation is now presented as a separate component of shareholder's equity. The non-controlling interest is no longer recorded as a deduction of net income and total comprehensive income, but is shown as a separate component of the Consolidated Statement of Operations and the Consolidated Statement of Comprehensive Income. In addition, the Consolidated Statement of Changes in Shareholder's Equity now discloses the allocation of net income, total comprehensive income and shareholder's equity, respectively, between the shareholder of the parent and the non-controlling interest.

Future changes

International Financial Reporting Standards

Pursuant to a decision made by the Canadian Accounting Standards Board, the corporation will begin reporting under International Financial Reporting Standards (IFRS) starting with the year ended March 31, 2012, including March 31, 2011, comparative results. Changing from Canadian generally accepted accounting principles (GAAP) to IFRS was a significant undertaking for the corporation. The corporation developed and followed an IFRS conversion plan with a formal governance structure to monitor the progress and critical decisions made during the conversion. New or amended IFRS will continue to be monitored for impacts to the corporation.

An external consultant was engaged to partner with the organization throughout the conversion process, as required. A high-level scoping study was completed, identifying impacts IFRS will have on the corporation's policies, processes and systems. The results of this study provided the framework for the corporation's detailed conversion plan.

Consideration of the required resources for the IFRS conversion project resulted in the dedication of certain full-time resources as well as other employees on a part-time basis as their expertise was required.

The following table lists key elements of the corporation's conversion plan, major milestones and the status of their completion. The corporation's conversion plan was completed over the time period from July 2008 to March 2011. Management previously disclosed that the conversion plan would be completed in June 2012. During the fiscal year, the corporation completed its implementation of the policies and procedures required to ensure IFRS compliance and a decision was made that the specific project dedicated to the implementation of IFRS had fulfilled the defined business objectives. The remaining tasks identified in the conversion plan are consistent with the day-to-day responsibilities of the corporation and will be managed as such. Completion of the first IFRS-compliant annual financial statements continues to be a key goal of the corporation.

Element	Milestone	Status
Financial Reporting		
Determine accounting and reporting differences. Select ongoing IFRS accounting policies. Select IFRS 1 elections.	Executive management approval of IFRS accounting policy and IFRS 1 election choices to occur in Q2, 2009-10.	Executive management approval of accounting policy choices and IFRS 1 elections has been obtained.
Develop IFRS financial statement format, including disclosures.	Draft financial statement format to be completed by Q4, 2009-10.	IFRS financial statement format has been completed.
Quantify effects of conversion.	Opening IFRS balance sheet to be completed in Q2, 2010-11.	Opening IFRS balance sheet has been completed and the effects of conversion have been quantified.
Systems and Processes		
Determine impact of accounting policy changes on systems and processes and implement required changes.	System and process changes completed in time to support dual reporting requirements throughout fiscal 2010-11.	System and process changes required have been implemented, including development of a dual reporting system for fiscal 2010-11. The changes required were not significant.
Confirm systems and processes support data requirements of financial reporting.	Comparative financial statements and disclosures completed throughout fiscal 2010-11.	IFRS financial statements have been completed for the comparative year.
Ensure the control environment is maintained as system and process changes are implemented.	All key control implications have been assessed when planning system and process change implementations.	System and process changes were assessed for impacts to the control environment. No significant changes were required.
Business		
Assess impacts to all areas of the business and implement required changes.	Impact to all areas of the business to be determined by Q2, 2009-10.	Assessment of impacts on other areas of the business has been completed. Impacts were communicated to the business areas and required changes were implemented. Changes were not significant.
Communicate conversion plan, impacts of IFRS and implementation progress internally and externally.	Maintain and execute change management and communication plans throughout the project.	Updates are provided to the Audit Committee at each meeting. Special sessions were held to communicate IFRS impacts identified and IFRS 1 election choices and to present the opening IFRS balance sheet.
Determine and provide the appropriate level of IFRS training for each area of the corporation.		Detailed IFRS training has been provided to key members of the IFRS project team. The training and information needs of the rest of the corporation have been identified and addressed.

The following describes the key changes that the corporation expects to make to its accounting policies as a result of the conversion to IFRS as well as the key IFRS 1 elections the corporation expects to make. The descriptions below are based on the accounting standards that the corporation expects to be effective for its first IFRS reporting period and may be amended as circumstances and standards change.

A final determination of the impact IFRS will have on the consolidated financial statements of the corporation cannot be measured with certainty until all the IFRS applicable at March 31, 2012, the corporation's first IFRS year-end, are known. The quantified impacts detailed below are therefore subject to change.

The total impact to the corporation's total shareholder's equity at April 1, 2010, the corporation's IFRS transition date, is expected to be a decrease of $127.9 million.

Employee benefits

(i) Under IFRS, the corporation expects that its accounting policy will be to recognize actuarial gains and losses in other comprehensive income (OCI) annually at March 31 of each year. Under GAAP, the corporation currently recognizes actuarial gains and losses over time using the corridor approach. The corporation expects to elect to recognize all cumulative actuarial gains and losses for its defined benefit plans at the date of transition. The transitional adjustment to retained earnings relating to this item is expected to be a decrease of $63.4 million. Further, the corporation expects to elect to use the exemption not to disclose the present value of the defined benefit obligation, the fair value of the plan assets, the defined benefit plan surplus/deficit and experience adjustments before the date of transition.

(ii) Under IFRS, the corporation must recognize a liability immediately for all past service costs arising from plan amendments to the extent that the benefits are already vested, and otherwise must recognize them on a straight-line basis over the average period until the benefits become vested. Under Canadian GAAP, all past service costs from plan amendments were amortized over the average remaining service period of active employees when the amendment was recognized. On transition, the corporation expects to recognize all vested past service costs and the impact to retained earnings is expected to be a decrease of $1.3 million.

(iii) IFRS requires that if the corporation has a net pension asset for its defined benefit obligation, the asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the corporation. An economic benefit is available to the corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities. Canadian GAAP did not calculate the asset ceiling in this manner. On transition, the corporation expects to recognize an additional liability, the impact of which is expected to be a decrease of $41.8 million to accumulated other comprehensive income.

(iv) Under IFRS, the measurement date for the accrued benefit obligation and the plan assets must be a date such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. Under Canadian GAAP, the plan assets and accrued benefit obligation were measured three months prior to the date of the annual financial statements. On transition, the corporation expects to recognize a $21.4 million decrease to retained earnings as a result of the change in measurement date.

(v) IFRS requires the corporation to record a liability for non-vesting short-term compensated absences. The expense is recognized when the employee renders service that increases their entitlement to future compensated absences that do not vest. Canadian GAAP did not require a liability for this type of short-term employee benefit to be recorded. The transitional adjustment to retained earnings to record the obligation is expected to be a decrease of $1.2 million.

Loan origination costs

Under IFRS, loan origination costs must be incremental and directly attributable to the loan origination. Loan origination costs must be deferred and recognized over the expected term of the loan using the effective interest rate method. Under Canadian GAAP, a portion of administrative expenses were deferred and recognized over the expected term of the loan using the effective interest rate method as they were considered direct costs of negotiating and executing loan agreements. These costs do not meet the criteria of loan origination costs under IFRS and the corporation expects to recognize the deferred balance at transition. The transitional impact to retained earnings is expected to be a decrease of $6.0 million.

Fees assessed after loan origination

Under IFRS, fees assessed after loan origination are recognized in income immediately. This includes conversions, re-amortizations, terming out, and payment schedule amendments, which under Canadian GAAP were deferred and recognized over the expected term of the loan using the effective interest method. The corporation expects to recognize the deferred balance at transition. The transitional impact to retained earnings is expected to be an increase of $5.7 million.

Unwinding of the discount

When a loan is classified as impaired, the carrying amount is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. An impairment loss is recorded as the difference between the loan's carrying amount and the present value of discounted estimated future cash flows. In subsequent periods, any change in present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwinding of the discount and the amount of the adjustment is recorded as income. Under IFRS, this income is recognized in interest income while under Canadian GAAP, it was recognized as a reduction to the provision for credit losses. There is no expected effect on the corporation's total shareholder's equity at transition from adopting this new income recognition policy.

Investments in associates

Under IFRS, investments in associates consolidated by the parent company of a venture capital organization must be accounted for at cost using the equity method of accounting. Under Canadian GAAP, venture capital investments under significant influence consolidated by the parent company of a venture capital organization were accounted for at fair value. The impact on transition is expected to be a $1.1-million increase to retained earnings and a $0.5-million increase to non-controlling interest in variable interest entity.

Other IFRS elections at transition

Business combinations

The corporation is expecting to elect not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the date of transition to IFRS. Therefore, prior business combinations would not be restated and there would be no effect on the corporation's financial statements at transition from applying this exemption.

Leases

The corporation is expecting to elect under IFRS 1 not to reassess whether an arrangement contains a lease under IFRIC 4 for contracts that were assessed under Canadian GAAP. Arrangements entered into before the effective date of EIC 150 that have not subsequently been assessed under EIC 150 were assessed under IFRIC 4 and no additional leases were identified. There is not expected to be a financial statement impact at transition as a result of this election.

Borrowing costs

Under Canadian GAAP, the corporation expensed borrowing costs as incurred. At the date of transition, the corporation is expecting to elect to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the date of transition. There is not expected to be a financial statement impact at transition as a result of this election.

The following tables further illustrate the impact the transition to IFRS is expected to have on the financial position and performance of the corporation.

Reconciliation of equity

($ thousands)	April 1, 2010
Total equity under Canadian GAAP	$ 2,345,055
Differences increasing (decreasing) retained earnings	
Employee benefits	(87,454)
Loan origination costs	(6,038)
Fees assessed after loan origination	5,725
Investments in associates	1,064
Differences decreasing accumulated other comprehensive income	
Employee benefits	(41,755)
Differences increasing non-controlling interest in variable interest entity	
Investments in associates	526
Total equity under IFRS	$ 2,217,123

Reconciliation of Consolidated Balance Sheet as of April 1, 2010

($ thousands)

Canadian GAAP accounts	Canadian GAAP	IFRS adjustments	IFRS	IFRS accounts
Assets				**Assets**
Cash and cash equivalents	$ 628,023	$ –	$ 628,023	Cash and cash equivalents
Temporary investments	199,818	–	199,818	Temporary investments
Accounts receivable	32,802	–	32,802	Accounts receivable
Derivative assets	66,945	–	66,945	Derivative assets
	927,588	–	927,588	
Loans receivable – net	19,159,940	(313)	19,159,627	Loans receivable – net
Finance leases receivable – net	2,827	–	2,827	Finance leases receivable – net
Venture capital investments	59,987	1,590	61,577	Venture capital investments
	19,222,754	1,277	19,224,031	
Equipment and leasehold improvements	31,513	–	31,513	Equipment and leasehold improvements
Computer software	42,814	–	42,814	Computer software
Equipment under operating leases	14,867	–	14,867	Equipment under operating leases
Other assets	46,791	(33,915)	12,876	Other assets
	135,985	(33,915)	102,070	
Total assets	**$ 20,286,327**	**$ (32,638)**	**$ 20,253,689**	**Total assets**
Liabilities				**Liabilities**
Accounts payable and accrued liabilities	$ 48,619	$ 1,229	$ 49,848	Accounts payable and accrued liabilities
Derivative liabilities	6,843		6,843	Derivative liabilities
	55,462	1,229	56,691	
Borrowings				Borrowings
Short-term debt	8,810,407	–	8,810,407	Short-term debt
Long-term debt	8,948,764	–	8,948,764	Long-term debt
	17,759,171	–	17,759,171	
Other liabilities	126,639	94,065	220,704	Other liabilities
Shareholder's equity				**Equity**
Contributed surplus	547,725	–	547,725	Contributed surplus
Retained earnings	1,584,266	(86,703)	1,497,563	Retained earnings
Accumulated other comprehensive income	203,603	(41,755)	161,848	Accumulated other comprehensive income
Equity attributable to shareholder of parent entity	2,335,594	(128,458)	2,207,136	Equity attributable to shareholder of parent entity
Non-controlling interest in variable interest entity	9,461	526	9,987	Non-controlling interest in special purpose entity
	2,345,055	(127,932)	2,217,123	
Total liabilities and shareholder's equity	**$ 20,286,327**	**$ (32,638)**	**$ 20,253,689**	**Total liabilities and equity**

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The consolidated financial statements include some amounts that are necessarily based on management's best estimates and judgments, such as the allowance for credit losses, the accrued benefit obligation, the reserve for insurance claims, variable interest entities and the fair value of financial instruments.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained, and the corporation complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and consolidated financial statements of the corporation and for issuing his report thereon.

Greg Stewart, P.Ag.
President and Chief Executive Officer

Rick Hoffman, CMA, MBA
Executive Vice-President and
Chief Financial Officer

Regina, Canada
June 1, 2011

Auditor General of Canada
Vérificateur général du Canada

Independant Auditor's Report

To the Minister of Agriculture and Agri-Food

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Farm Credit Canada which comprise the consolidated balance sheet as at 31 March 2011, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Farm Credit Canada as at 31 March 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Farm Credit Canada that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act*, the bylaws of Farm Credit Canada and the directive issued pursuant to Section 89 of the *Financial Administration Act*.

John Wiersema, FCA
Interim Auditor General of Canada

1 June 2011

Consolidated Balance Sheet

As at March 31 ($ thousands)	2011	2010 Restated (Note 3)
Assets		
Cash and cash equivalents	$ 601,840	$ 628,023
Temporary investments (Note 4)	284,162	199,818
Accounts receivable	12,676	32,802
Derivative assets (Note 5)	47,407	66,945
	946,085	927,588
Loans receivable – net (Notes 6 and 8)	20,748,432	19,159,940
Finance leases receivable – net (Notes 7 and 8)	4,912	2,827
Venture capital investments (Note 9)	58,024	59,987
	20,811,368	19,222,754
Equipment and leasehold improvements (Note 10)	29,314	31,513
Computer software (Note 11)	42,124	42,814
Equipment under operating leases (Note 12)	19,077	14,867
Other assets (Note 13)	62,089	46,791
	152,604	135,985
Total assets	$ 21,910,057	$ 20,286,327
Liabilities		
Accounts payable and accrued liabilities	$ 50,656	$ 48,619
Derivative liabilities (Note 5)	4,724	6,843
	55,380	55,462
Borrowings (Note 15)		
Short-term debt	8,029,920	8,810,407
Long-term debt	10,921,999	8,948,764
	18,951,919	17,759,171
Other liabilities (Note 16)	134,128	126,639
Shareholder's equity		
Contributed surplus	547,725	547,725
Retained earnings	2,025,725	1,584,266
Accumulated other comprehensive income	181,804	203,603
Equity attributable to shareholder of parent entity	2,755,254	2,335,594
Non-controlling interest in variable interest entity	13,376	9,461
	2,768,630	2,345,055
Total liabilities and shareholder's equity	$ 21,910,057	$ 20,286,327

Commitments, guarantees and contingent liabilities (Note 21).

The accompanying notes are an integral part of the consolidated financial statements.

Approved:

Greg Stewart, P.Ag.
President and Chief Executive Officer

John Klippenstein, CMA
Chair, Audit Committee

Consolidated Statement of Operations

For the year ended March 31 ($ thousands)		2011		2010
Interest income				
Loans and leases	$	937,091	$	797,441
Investments		9,559		5,888
		946,650		803,329
Interest expense		208,156		193,450
Net interest income (Note 17)		738,494		609,879
Provision for credit losses (Note 8)		27,932		91,402
Net interest income after provision for credit losses		710,562		518,477
Net insurance income		11,130		8,563
Other income		4,858		1,749
Net interest income and non-interest income		726,550		528,789
Administration expenses (Note 18)		270,801		255,165
Net income before fair value adjustment		455,749		273,624
Fair value adjustment (Note 19)		3,446		6,568
Net income	$	459,195	$	280,192
Net income (loss) attributable to:				
Shareholder of parent entity	$	459,959	$	281,916
Non-controlling interest in variable interest entity		(764)		(1,724)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended March 31 ($ thousands)		2011		2010
Net income	$	**459,195**	$	280,192
Other comprehensive income				
Net gains (losses) on derivatives designated as cash flow hedges		**498**		(186,689)
Transfer of net realized gains on derivatives designated as cash flow hedges to net income		**(21,060)**		(16,896)
Change in net losses on derivatives designated as cash flow hedges		**(20,562)**		(203,585)
Net unrealized losses on available-for-sale temporary investments		**(1,237)**		(6)
Total other comprehensive loss	$	**(21,799)**	$	(203,591)
Total comprehensive income	$	**437,396**	$	76,601
Total comprehensive income (loss) attributable to:				
Shareholder of parent entity	$	**438,160**	$	78,325
Non-controlling interest in variable interest entity		**(764)**		(1,724)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Shareholder's Equity

($ thousands)	Balance, April 1, 2010	Comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance, March 31, 2011
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ 547,725
Retained earnings	1,584,266	459,959	(18,500)	–	2,025,725
Net gains (losses) on derivatives designated as cash flow hedges	203,859	(20,562)	–	–	183,297
Net unrealized losses on available-for-sale assets	(256)	(1,237)	–	–	(1,493)
Total accumulated other comprehensive income (loss)	203,603	(21,799)	–	–	181,804
Non-controlling interest in variable interest entity	9,461	(764)	–	4,679	13,376
Total	$ 2,345,055	$ 437,396	$ (18,500)	$ 4,679	$ 2,768,630

($ thousands)	Balance, April 1, 2009	Comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance, March 31, 2010
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ 547,725
Retained earnings	1,320,950	281,916	(18,600)	–	1,584,266
Net gains (losses) on derivatives designated as cash flow hedges	407,444	(203,585)	–	–	203,859
Net unrealized losses on available-for-sale assets	(250)	(6)	–	–	(256)
Total accumulated other comprehensive income (loss)	407,194	(203,591)	–	–	203,603
Non-controlling interest in variable interest entity	7,555	(1,724)	–	3,630	9,461
Total	$ 2,283,424	$ 76,601	$ (18,600)	$ 3,630	$ 2,345,055

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31 ($ thousands)	2011	2010 Restated (Note 3)
Operating activities		
Net income	$ 459,959	$ 281,916
Adjustments to determine net cash from (used in) operating activities:		
Adjustment for loans no longer impaired	6,470	–
Provision for credit losses	27,932	91,402
Fair value adjustment	(3,446)	(6,568)
Amortization (1)	(7,928)	(2,828)
Foreign exchange (gains) losses	(47)	165
Other	(2,931)	44
Net change in accrued interest receivable and payable	(26,351)	(23,552)
Net change in other operating assets and liabilities	1,253	15,809
Cash provided by operating activities	$ 454,911	$ 356,388
Investing activities		
Net change in loans receivable	$ (1,586,227)	$ (2,653,264)
Net change in finance leases receivable	(2,020)	(2,858)
Net change in temporary investments	(84,314)	(155,936)
Acquisition of venture capital investments	(12,002)	(11,282)
Proceeds on disposal and repayment of venture capital investments	15,582	8,793
Purchase of equipment and leasehold improvements	(8,649)	(13,439)
Purchase of computer software	(14,563)	(18,169)
Purchase of equipment under operating leases	(7,862)	(11,295)
(Acquisition) disposal of real estate property held for sale	(24)	845
Cash used in investing activities	$ (1,700,079)	$ (2,856,605)
Financing activities		
Long-term debt issued	$ 5,775,881	$ 6,494,404
Long-term debt repaid	(3,486,289)	(3,351,310)
Short-term debt issued	42,093,003	71,043,951
Short-term debt repaid	(43,164,403)	(71,834,808)
Proceeds on sale of derivatives	19,293	98,683
Dividend paid	(18,500)	(18,600)
Cash provided by financing activities	$ 1,218,985	$ 2,432,320
Change in cash and cash equivalents	$ (26,183)	$ (67,897)
Cash and cash equivalents, beginning of year	628,023	695,920
Cash and cash equivalents, end of year	$ 601,840	$ 628,023
Cash and cash equivalents are comprised of:		
Cash	$ 18,106	$ 7,377
Short-term investments	583,734	620,646
Supplemental information		
Cash interest paid during year	$ 211,617	$ 249,649

(1) Includes amortization of equipment and leasehold improvements, computer software, equipment under operating leases, AOCI, bond premium/discount, deferred revenue fees and deferred initial direct leasing costs.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law and replaced the Farm Credit Act and the Farm Syndicates Credit Act, both of which were repealed. The Act continues the corporation with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the Farm Credit Canada Act received royal assent, which updated the Farm Credit Corporation Act. This new Act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

In September 2008, the corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act requiring due consideration by the corporation to the personal integrity of those it lends to or provides benefits to. During fiscal 2011, the corporation continued to ensure the requirements of Section 89(6) of the Financial Administration Act were being implemented.

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

2. Significant accounting policies

Basis of presentation

Consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of the consolidated financial statements in accordance with GAAP requires that management make estimates, assumptions and judgments that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. The more significant areas requiring the use of management estimates and judgments are the allowance for credit losses, the accrued benefit obligation, the reserve for insurance claims, variable interest entities and the fair value of financial instruments.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized in the following pages.

Basis of consolidation

The consolidated financial statements include the accounts of the corporation and Avrio Ventures Limited Partnership (Avrio), a variable interest entity for which the corporation is the primary beneficiary due to holding a 67% interest in the partnership. An adjustment has been made for significant intervening transactions occurring between Avrio's year-end of December 31 and the year-end of the corporation. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in Avrio not attributable to the corporation, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Shareholder's Equity.

Classification and designation of financial instruments

Financial assets are classified or designated as loans and receivables, held for trading (HFT) or available-for-sale (AFS). Financial liabilities are classified or designated as HFT or other financial liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. HFT financial instruments are financial assets or liabilities that are purchased or incurred with the intention of generating profits in the near term, derivatives not designated in hedging relationships or financial instruments designated upon initial recognition as HFT. AFS financial instruments are those intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification.

Cash and cash equivalents

Cash and cash equivalents are composed of bank account balances and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition. Interest earned on cash and cash equivalents is included in investment income.

Temporary investments

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS. Temporary investments are accounted for at fair value using settlement date accounting and a valuation technique as described under the Fair Value of Financial Instruments heading. Unrealized fair value gains and losses are included in other comprehensive income (OCI). Interest income is accrued when receivable and included in investment income.

Derivatives

Derivative financial instruments create rights and obligations that are intended to mitigate one or more of the financial risks inherent in an underlying primary financial instrument. The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivatives not designated as hedging instruments in effective hedging relationships are classified as HFT. HFT derivatives are recorded at fair value using a valuation technique as described under the Fair Value of Financial Instruments heading, with gains and losses reported in the fair value adjustment. HFT derivatives are reported as assets where they have a positive fair value and liabilities where they have a negative fair value. Interest earned and incurred on HFT derivatives is included in interest income and expense, respectively.

Cash flow hedge accounting

Derivatives that are designated as hedging items in cash flow hedges are accounted for at fair value. The effective portion of changes in a derivative's fair value is recognized in OCI while the ineffective portion of changes in a derivative's fair value is reported in the fair value adjustment. Derivatives designated as hedging items are reported as assets where they have a positive fair value and liabilities where they have a negative fair value. Interest income or expense related to derivatives designated as hedging items in cash flow hedges is recognized on the same basis as the hedged item, as an adjustment to interest income or expense, respectively.

Cash flow hedge accounting is discontinued prospectively when the derivative contract is terminated, matures or no longer qualifies as an effective cash flow hedge. When a cash flow hedge is discontinued, any cumulative gains or losses previously recognized in OCI are transferred to net interest income over the remaining term of the original hedge and in the same manner that net interest income is affected by the variability in the cash flows as the hedged item. For derivatives still outstanding following the date of the discontinued hedging relationship, all subsequent fair value gains and losses are recognized immediately in the fair value adjustment.

Loans receivable

Loans are classified as loans and receivables. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest rate method.

Loan interest income is recorded on an accrual basis and is recognized in net income using the effective interest rate method until the loan is classified as impaired. Once a loan is impaired, the unwinding of the discount on the security value is recognized as a reduction to the provision for credit losses based on the original effective interest rate of the loan.

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest rate method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees.

An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured. When a loan is classified as impaired, the carrying amount is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the allowance for credit losses.

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the allowance for credit losses is reduced through the adjustment for loans no longer impaired for the amount of loan interest income now recognized.

Loans are written off against the related allowance for credit losses if there is no realistic prospect of future recovery.

Finance leases receivable

Finance leases receivable are classified as loans and receivables. Finance leases receivable are stated net of an allowance for credit losses and are recorded at the aggregate future minimum lease payment plus estimated residual values less unearned finance income. Finance lease income is recognized in a manner that produces a constant rate of return on the lease.

Allowance for credit losses

The corporation recognizes an allowance for credit losses that represents management's best estimate of the incurred impairment in the loan and lease portfolio at the balance sheet date. The allowance is increased or decreased by the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, and the adjustment for loans no longer impaired, as described under the Loans Receivable heading. The allowance is reduced by writeoffs net of recoveries.

The corporation assesses at each balance sheet date whether there is objective evidence that a loan or lease is impaired. If there is objective evidence that an impairment loss on a loan or lease has been incurred, the carrying amount of the loan or lease is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. In determining the allowance for credit losses, management segregates credit losses into two components: specific allowance and general allowance.

Specific allowance – Based on an account-by-account review, the specific allowance is established to value impaired loans or leases at the lower of the balance sheet carrying amount of the loan or lease and its estimated realizable value. The realizable value is based on the fair value of any underlying security, as well as the estimated time and costs required to realize the security. Changes in the estimated realizable value arising subsequent to initial impairment are adjusted through the specific allowance. For loans that were originated on the basis of cash flow lending, no collateral is held by the corporation and the estimated realizable value is based on expected cash flows as well as the estimated time and costs to realize the cash flows.

General allowance – A general allowance is established to provide for estimated credit losses incurred at the balance sheet date relating to individual loans or leases in the portfolio that have shown deterioration in credit quality but have not yet met the corporation's criteria for inclusion in the specific allowance. A model is used to determine the estimated credit losses for such loans or leases. The model considers specific indicators of deterioration in credit quality, including adverse changes in the payment status of borrowers. The amount of the general allowance is calculated based on the application of loan default rates to the estimated loss amounts for loans and leases identified. These factors are based on the corporation's historical experience and are adjusted to reflect current conditions.

The general allowance also provides for losses that have occurred at the balance sheet date but cannot be identified on an individual loan or lease basis and is calculated on a collective basis. In determining the amount of this portion of the general allowance, management assesses business and economic conditions, historical loss experience adjusted for current market considerations, loan and lease portfolio composition and other relevant factors. As a single-industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and enterprises. Accordingly, management includes these factors in its assessment.

The allowance for credit losses is an estimate for accounting purposes. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate. The methodology and assumptions used by management are reviewed regularly in an attempt to reduce any differences between loss estimates and actual loss experience.

Venture capital investments

Venture capital investments include investments that are held directly by the corporation (FCC Fund) and investments held by Avrio Ventures Limited Partnership (Avrio Fund). FCC Fund investments focus on providing financing to small and medium-sized companies in early to mature stages, while Avrio Fund investments target investments containing higher risk profiles in commercialization-to-growth stages.

The corporation designated its FCC Fund investments as HFT, with the exception of one investment over which the corporation has significant influence, in order to eliminate the need to identify and separate certain embedded options found in the investment contracts.

FCC Fund and Avrio Fund venture capital investments, where the corporation does not have significant influence, are accounted for at fair value using a valuation technique as described under the Fair Value of Financial Instruments heading, with gains and losses reported in the fair value adjustment. Interest on debt, calculated in accordance with the effective interest rate method, is accrued when receivable and included in interest income. Dividends on preferred and common shares are accrued when receivable and declared, respectively, and included in interest income. Royalty and fee income are also accrued when receivable and included in interest income.

The FCC Fund venture capital investment over which the corporation has significant influence is accounted for using the equity method. Under this method, the pro rata share of post-acquisition earnings is included in other income and adjusts the carrying value of the investment. Dividends received or receivable reduce the carrying value of the investment.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization.

Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures are included in the equipment or leasehold improvement's carrying amount, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. All repair and maintenance costs are expensed during the financial period in which they are incurred.

Amortization begins when the equipment or leasehold improvement is available for use by the corporation and is included in administration expenses. Amortization is calculated using the straight-line method over the following terms:

	Terms
Office equipment and furniture	5 years
Computer equipment	3 or 5 years
Leasehold improvements	Shorter of lease term or asset's useful economic life

Computer software

Software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when the corporation is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software.

Amortization begins when the software is available for use by the corporation. Amortization is recorded over the estimated useful life of three or five years using the straight-line method and is included in administration expenses.

Equipment under operating leases

Equipment under operating leases is recorded at cost less accumulated amortization. Equipment is amortized on a straight-line basis over the term of the lease. Rental revenue from operating leases is recognized on a straight-line basis over the term of the lease and is included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Employee future benefits

The corporation has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan and other defined benefit plans that provide retirement and post-employment benefits to most of its employees. The defined benefit pension plans are based on the number of years of service and average salaries for the five highest-paid consecutive years of service and are inflation-protected. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees with employment income greater than pensionable earnings.

Retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans provide short-term disability income benefits, severance entitlements after employment and health-care benefits to employees on long-term disability.

The accrued benefit obligation for pension and other defined benefit plans is actuarially determined using the projected benefit method prorated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for the period and the expected long-term rate of return on plan assets for the period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered by the defined benefit pension plans is 10 years (2010 – 10 years). The average remaining service period to expected retirement age is 15 years (2010 – 15 years) for employees expected to receive benefits under the post-retirement non-pension benefit plan and 15 years (2010 – 15 years) for active employees covered by the post-employment benefit plan.

Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees when the amendment is recognized.

Insurance

The corporation sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider. The insurance premiums are actuarially determined and are accrued when receivable and recorded in net insurance income.

Insurance claims expense, included in net insurance income, consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year-end for claims that have been incurred as of the balance sheet date and adjustments to the reserve for insurance claims. The reserve for

insurance claims represents the liability due to the expected shortfall of future premiums compared to future claims. The reserve for insurance claims is recorded at fair value and included in other liabilities. The reserve is actuarially determined using the Canadian Asset Liability Method and is prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation. It is based on estimates of future premiums, expected future mortality costs and expenses, past experience, interest rates and margins for adverse deviation from these assumptions. Actual experience may vary from best estimate assumptions, which will result in plan experience that differs from what is projected. These assumptions are reviewed at least annually and updated in response to actual experience and market conditions. Changes in estimates are recorded in net income when made and are included in insurance claims expense.

The corporation maintains an insurance reserve asset with the insurance provider to fund future claim payments. The insurance reserve asset is classified as loans and receivables and measured at amortized cost and included in other assets.

Expenses related to administering the insurance program are recorded in administration expenses. The accrual for insurance claims payable is a financial instrument recorded at amortized cost in accounts payable and accrued liabilities.

Real estate property held for sale

Real estate property acquired from customers in settlement of loan commitments is classified as held for sale and recorded in other assets at fair value less selling costs. Fair value less selling costs is the amount that could be realized in an arm's-length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

The carrying value of real estate property held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. Recoveries arising from the disposal of real estate property held for sale are recognized when title to the property passes to the purchaser. Recoveries, adjustments and net operating costs incurred on real estate property held for sale are included in other income.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost.

Borrowings

Borrowings are undertaken with the approval of the Minister of Finance. Borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Structured notes form part of the corporation's funding program. Structured notes are hybrid securities that combine fixed income products with derivative financial instruments. The corporation designated its structured notes as HFT in order to record them on a basis consistent with the fair value changes in their related derivatives. Borrowings designated as HFT are accounted for at fair value with gains and losses reported in the fair value adjustment.

Other borrowings are classified as other financial liabilities and measured at amortized cost.

Interest incurred on all borrowings is recorded on an accrual basis and is recognized in interest expense using the effective interest rate method.

Transition loan liabilities

The corporation records a transition loan liability that represents amounts owing to third parties upon the signing of a contract that requires the corporation to pay amounts in accordance with a disbursement schedule relating to undisbursed transition loans, which are included in loans receivable. As payments are made in accordance with the transition loan disbursement schedule, the applicable amount of the transition loan liability is reduced accordingly. Transition loan liabilities are recorded at amortized cost and included in other liabilities.

Government assistance

The corporation is one of the financial institutions participating in the HILLRP. Under the HILLRP, the Government of Canada has established a loan loss reserve fund to share the net credit losses on eligible loans provided to hog operations with certain financial institutions. The corporation is responsible for all credit losses beyond those covered by the loan loss reserve fund and must meet certain eligibility requirements to access the reserve fund. The amount of funds available from the loan loss reserve fund to the corporation for any non-performing eligible loans are 90%, 80% and 70% of net credit losses in years 1 to 3, 4 to 6 and 7 to 15, respectively. Amounts held by the corporation to which the corporation is not entitled are paid back to the Government of Canada at the end of the program. The corporation's deadline for disbursing the loans eligible under this program has passed and no further loan loss reserve fund instalments are due from the Government of Canada.

An estimate is made by management for the amount of the loan loss reserve fund to which the corporation is entitled under the HILLRP and this estimate is accounted for as a reduction to the corporation's provision for credit losses. The remaining amount of the loan loss reserve fund, to which the corporation is not entitled, is recorded as long-term debt. Interest on this long-term debt is recorded in interest expense.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs relating to loans and receivables are deferred and amortized over the expected useful life of the instrument using the effective interest rate method. Transaction costs related to all other financial instruments are expensed as incurred.

Operating lease payments

Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs are expensed as incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables are included in interest income and exchange gains and losses on borrowings are included in interest expense.

Fair value of financial instruments

The fair value of financial instruments is determined based on published quoted market prices or valuation techniques when quoted market prices are not available. Fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events based on either observable or non-observable market inputs. As such, fair values are estimates involving uncertainties and may be significantly different when compared to another financial institution's value for a similar contract. The methods used to value financial instruments measured at fair value are as follows:

- The estimated fair value of temporary investments is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent securities.

- The estimated fair value of derivative assets and liabilities is determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates and takes volatility levels and estimations for other market-based pricing factors into consideration. Market observed credit spreads, where available, are a key factor in establishing valuation adjustments against the corporation's counterparty credit exposures. Where a counterparty does not have an observable credit spread, a proxy that reflects the credit profile of the counterparty is used.
- Venture capital investments in shares that are traded on an exchange are valued based on the bid prices as at year-end. Venture capital investments in shares of privately held companies are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value for venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at year-end with equivalent terms to maturity.
- The estimated fair value of structured notes, included in borrowings, is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity or by utilizing quoted market prices where available. Inputs used to determine the fair value include currency exchange rates, credit spreads, yield curves and volatility levels. Where embedded optionality exists (call features), fair values are derived using market standard valuation models and techniques. The value of the embedded options is determined using market measures for interest rates, currency exchange rates and volatility levels and estimations for other market-based pricing factors.

Changes in accounting standards

Consolidated financial statements and non-controlling interest

On April 1, 2010, the corporation early adopted the Canadian Institute of Chartered Accountants Handbook Section 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests. As a result of adopting the new standards, the non-controlling interest of the corporation is now presented as a separate component of shareholder's equity. The non-controlling interest is no longer recorded as a deduction of net income and total comprehensive income but is shown as a separate component of the Consolidated Statement of Operations and the Consolidated Statement of Comprehensive Income. In addition, the Consolidated Statement of Changes in Shareholder's Equity now discloses the allocation of net income, total comprehensive income and shareholder's equity, respectively, between the shareholder of the parent and the non-controlling interest.

Future changes in accounting standards

Initial adoption of International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011, as the date International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises. The corporation's first annual IFRS financial statements will be for the year ending March 31, 2012, and will include comparative figures.

Future changes to International Financial Reporting Standards

In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9, Classification and Measurement, which addresses the classification and measurement of financial assets. In October 2010, the IASB added the requirements for classifying and measuring financial liabilities to IFRS 9. IFRS 9 replaces the classification and measurement portions of IAS 39, Financial Instruments Recognition and Measurement, and is the first in a three-phase project in progress by the IASB to replace IAS 39 in its entirety. These recommendations are effective for fiscal years beginning on or after January 1, 2013, and therefore, the corporation will implement them for its year ended March 31, 2014. The second and third phases of the project address Amortized Cost and Impairment and Hedge Accounting, respectively, and have not yet been finalized.

3. Prior period adjustment

As a result of a review of the 2009-10 year-end loans receivable and other liabilities, errors in the 2009-10 consolidated financial statement balances were discovered. The corporation has retroactively corrected the errors and restated the consolidated financial statements for the year ended March 31, 2010. The impact of these errors on the 2009-10 previously reported amounts in the Consolidated Balance Sheet is an increase to both loans receivable and other liabilities in the amount of $83.2 million. There was no impact to the 2009-10 net income or retained earnings.

4. Temporary investments

	2011			2010		
($ thousands)		Carrying value	Yield		Carrying value	Yield
Short-term instruments	$	284,162	1.12%	$	199,818	0.32%

Short-term instruments consist of deposit notes, bankers' acceptance and treasury bills issued by institutions with credit ratings of R-1M or higher (2010 – R-1M or higher) as rated by the Dominion Bond Rating Service (DBRS). As at March 31, 2011, the largest total investment in any one institution was $123.6 million (2010 – $89.9 million).

All temporary investments have an initial term to maturity of 91 to 365 days and will mature within three months.

5. Derivative financial instruments

($ thousands)		2011		2010
Derivative assets				
Derivatives designated as cash flow hedges	$	46,310	$	65,023
Derivatives classified as HFT		1,097		1,922
	$	47,407	$	66,945
Derivative liabilities				
Derivatives designated as cash flow hedges	$	4,475	$	3,819
Derivatives classified as HFT		249		3,024
	$	4,724	$	6,843

Types of derivative contracts

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged. Included in interest rate swaps are receive-fixed swaps, pay-fixed swaps and certain structured note swaps.

Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts in different currencies at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Included in cross-currency interest rate swaps are certain structured note swaps.

The derivative contracts entered into by the corporation are over-the-counter instruments.

Cash flow hedges

Cash flow hedges consist of interest rate swaps. The corporation is exposed to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for the financial assets and financial liabilities on the basis of their contractual terms and other relevant factors. The principal balances and interest cash flows over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges of forecasted transactions.

The estimated amount of existing net gains reported in AOCI that is expected to be reclassified to net income within the next 12 months is $21.5 million.

The maximum length of time over which the corporation is hedging its exposure to the variability in future cash flows for anticipated transactions is 11 years.

Notional principal amounts

		Remaining term to maturity				
($ thousands)		Within 1 year	1 – 5 years	Over 5 years	2011	2010
Interest rate swap contracts						
Receive	**Pay**					
Fixed	Floating	$ 350,000	$ 449,675	$ 297,300	$ 1,096,975	$ 1,156,861
Cross-currency	Floating	–	–	–	–	22,704
Cross-currency	Fixed	–	3,397	–	3,397	3,679
		$ 350,000	$ 453,072	$ 297,300	$ 1,100,372	$ 1,183,244

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time the corporation can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions.

The net fair values of the derivative instruments are as follows:

	2011			2010
($ thousands)	Positive fair value	Negative fair value	Net fair value	Net fair value
Interest rate swaps	$ 47,407	$ 4,475	$ 42,932	$ 60,471
Cross-currency interest rate swaps	–	249	(249)	(369)
Fair value	47,407	4,724	42,683	60,102
Impact of master netting agreements	(4,694)	(4,694)	–	–
	$ 42,713	$ 30	$ 42,683	$ 60,102

The corporation does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa2 or higher, as rated by Moody's Investors Service (Moody's). The largest cumulative notional amount contracted with any institution as at March 31, 2011, was $350.0 million (2010 – $450.0 million) and the largest net fair value of contracts with any institution as at March 31, 2011, was $13.6 million (2010 – $17.5 million). The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 24. These agreements create the legal right of offset of exposure in the event of default.

Using reasonable possible alternative assumptions for valuing derivatives would not have a material effect on the corporation's financial position or earnings.

6. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable as at March 31, 2011. The yields are computed on a weighted-average basis by amount and term. Floating-rate loans are linked to the bank prime rate and re-price with changes in the rate.

	Remaining term to maturity				
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	2011	2010 Restated (Note 3)
Floating	$ 1,007,473	$ 12,762,603	$ 836,183	$ 14,606,259	$ 13,128,429
Yield	4.33%	3.93%	3.85%	3.95%	3.20%
Fixed	901,801	4,058,505	1,547,054	6,507,360	6,432,182
Yield	5.73%	5.64%	6.14%	5.77%	6.00%
Performing loans				21,113,619	19,560,611
Impaired loans				241,362	236,716
Deferred loan fees				(20,445)	(26,977)
Loans receivable – gross				21,334,536	19,770,350
Allowance for credit losses				(586,104)	(610,410)
Loans receivable – net				$ 20,748,432	$ 19,159,940

Management estimates that annually, over the next three years, 6.5% (2010 – 6.5%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2011, $57.5 million (2010 – $64.9 million) of loans receivable were denominated in United States dollars (USD).

Concentrations of credit risk

The concentrations of performing loans and impaired loans by business line, enterprise and geographic area are as follows:

($ thousands)		Primary production financing		Agribusiness and agri-food financing		Alliances		2011		2010 Restated (Note 3)
Performing loans – Enterprise distribution										
Cash crops	$	7,013,259	$	263,679	$	291,968	$	7,568,906	$	6,973,079
Dairy		4,520,005		4,507		40,274		4,564,786		4,374,364
Value-added		186,478		2,227,231		46,165		2,459,874		2,312,794
Other		2,338,055		57,986		26,758		2,422,799		1,865,483
Beef		1,211,437		33,294		300,337		1,545,068		1,522,184
Poultry		1,413,117		58,031		1,253		1,472,401		1,372,485
Hogs		1,008,200		60,352		11,233		1,079,785		1,140,222
Performing loans	$	17,690,551	$	2,705,080	$	717,988	$	21,113,619	$	19,560,611
Performing loans – Geographic distribution										
Western	$	5,331,936	$	786,389	$	311,112	$	6,429,437	$	5,940,816
Prairie		4,201,449		483,972		250,768		4,936,189		4,527,475
Ontario		5,546,452		676,077		135,446		6,357,975		6,038,210
Quebec		1,856,615		570,682		19,297		2,446,594		2,191,470
Atlantic		754,099		187,960		1,365		943,424		862,640
Performing loans	$	17,690,551	$	2,705,080	$	717,988	$	21,113,619	$	19,560,611
Impaired loans – Enterprise distribution										
Cash crops	$	69,378	$	2,216	$	6,160	$	77,754	$	40,520
Dairy		11,954		–		18		11,972		5,109
Value-added		5,440		39,974		–		45,414		49,916
Other		36,830		423		99		37,352		42,853
Beef		25,643		–		1,219		26,862		29,389
Poultry		4,341		–		–		4,341		13,550
Hogs		28,590		9,077		–		37,667		55,379
Impaired loans		182,176		51,690		7,496		241,362		236,716
Specific allowance (Note 8)		(58,186)		(22,894)		(7,380)		(88,460)		(88,065)
Net impaired loans	$	123,990	$	28,796	$	116	$	152,902	$	148,651
Impaired loans – Geographic distribution										
Western	$	83,266	$	15,748	$	3,702	$	102,716	$	86,702
Prairie		43,302		18,068		65		61,435		64,879
Ontario		13,293		4,352		2,109		19,754		41,252
Quebec		22,193		2,964		1,466		26,623		17,209
Atlantic		20,122		10,558		154		30,834		26,674
Impaired loans		182,176		51,690		7,496		241,362		236,716
Specific allowance (Note 8)		(58,186)		(22,894)		(7,380)		(88,460)		(88,065)
Net impaired loans	$	123,990	$	28,796	$	116	$	152,902	$	148,651

7. Finance leases receivable – net

($ thousands)		2011		2010
Total minimum finance lease payments receivable				
2010-11	$	–	$	1,351
2011-12		2,105		894
2012-13		1,316		482
2013-14		887		247
2014-15		698		233
2015 and beyond		431		–
Unearned finance income		(441)		(325)
Finance leases receivable – gross		4,996		2,882
Allowance for credit losses		(84)		(55)
Finance leases receivable – net	$	4,912	$	2,827

The company retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is five years.

8. Allowance for credit losses

($ thousands)		Loans receivable		Finance leases receivable		2011		2010
Balance, beginning of year	$	610,410	$	55	$	610,465	$	558,988
Provision for credit losses		27,903		29		27,932		91,402
Losses covered under HILLRP		(631)		–		(631)		6,153
Losses incurred on loan restructuring		–		–		–		(2,111)
Adjustment for loans no longer impaired		6,470		–		6,470		–
Writeoffs		(58,760)		–		(58,760)		(44,619)
Recoveries		712		–		712		652
Balance, end of year	$	586,104	$	84	$	586,188	$	610,465
Specific allowance	$	88,460	$	–	$	88,460	$	88,065
General allowance		497,644		84		497,728		522,400
Balance, end of year	$	586,104	$	84	$	586,188	$	610,465

9. Venture capital investments

($ thousands)		2011		2010
Avrio Fund investments	$	39,305	$	28,942
FCC Fund investment – significant influence		9,586		7,973
FCC Fund investments designated as HFT		9,133		23,072
	$	58,024	$	59,987

Carrying value by type of investment

($ thousands)		2011		2010
Preferred shares	$	25,641	$	20,766
Common shares		18,090		25,721
Debt		14,293		13,500
	$	58,024	$	59,987

The venture capital investment portfolio exposes the corporation to credit risk. Venture capital investments are typically secured only by a general security agreement, assignment of life insurance proceeds and personal guarantees, which makes the measurement of the fair value of collateral held impracticable. As at March 31, 2011, the gross amount of venture capital debt investments that was in arrears was $0.1 million (2010 – $5.5 million), and renegotiated venture capital investments that would otherwise be in arrears was $4.4 million (2010 – $0.3 million).

Concentrations of venture capital investments by sector

($ thousands)		2011		2010
Food processing and manufacturing	$	20,122	$	26,828
Agriculture biotechnology		19,383		19,053
Bio-based fuels and chemicals		18,519		14,106
	$	58,024	$	59,987

As at March 31, 2011, the total amount of net gains (losses) realized on disposal and reported in the fair value adjustment was $2.2 million (2010 – $(0.8) million) and the total amount of net unrealized losses reported in the fair value adjustment was $3.4 million (2010 – $3.2 million).

The total amount of fees, interest and dividends recorded in net income during the year for venture capital investments recognized at fair value was $1.4 million (2010 – $3.3 million). The total net income recorded in net income for the venture capital investment subject to the corporation's significant influence during the year was $3.0 million (2010 – $0.2 million).

In addition to the above investments, the corporation has loans receivable from venture capital investees in the amount of $35.8 million (2010 – $47.3 million) and guarantees from venture capital investees in the amount of $7.7 million (2010 – $12.7 million).

Using reasonable possible alternative assumptions for valuing venture capital investments that are measured at fair value would not have a material effect on the corporation's financial position or earnings.

10. Equipment and leasehold improvements

($ thousands)		Cost		Accumulated amortization		2011 Net book value		2010 Net book value
Leasehold improvements	$	41,131	$	21,906	$	19,225	$	19,431
Office equipment and furniture		26,775		19,384		7,391		8,659
Computer equipment		11,550		8,852		2,698		3,423
	$	79,456	$	50,142	$	29,314	$	31,513

The total amount of amortization of equipment and leasehold improvements recorded in administration expenses during the year was $10.8 million (2010 – $9.9 million).

11. Computer software

($ thousands)	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Software	$ 104,045	$ 61,921	$ 42,124	$ 42,814

Software of $1.9 million (2010 – $1.7 million) was acquired and $12.7 million (2010 – $17.1 million) was internally developed during the year. The total amount of amortization of computer software recorded in administration expenses during the year was $15.3 million (2010 – $9.9 million).

12. Equipment under operating leases

($ thousands)	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Equipment	$ 25,296	$ 6,219	$ 19,077	$ 14,867

The total amount of amortization of equipment under operating leases recorded in interest income during the year was $3.7 million (2010 – $2.2 million).

The initial lease terms of operating leases range from two to five years. Future rental payments to be received from operating leases are as follows:

($ thousands)	2011	2010
2010-11	$ –	$ 3,056
2011-12	4,164	2,577
2012-13	3,345	2,053
2013-14	2,774	1,600
2014-15	1,798	242
2015 and beyond	256	–
	$ 12,337	$ 9,528

13. Other assets

($ thousands)	2011	2010
Accrued benefit assets (Note 14)	$ 46,177	$ 33,915
Insurance reserve assets	15,014	11,985
Real estate property held for sale	859	834
Other	39	57
	$ 62,089	$ 46,791

14. Employee future benefits

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the pension plans for funding purposes were prepared as at December 31, 2010. The next valuations for funding purposes will be as at December 31, 2011.

($ thousands)	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
Change in accrued benefit obligation				
Accrued benefit obligation, beginning of year	$ 317,978	$ 262,880	$ 40,862	$ 27,095
Current service cost	12,814	9,672	2,837	1,850
Interest cost on benefit obligation	19,843	17,703	2,596	1,857
Contributions by employees	4,031	4,013	–	–
Benefits paid	(8,391)	(6,935)	(813)	(489)
Actuarial loss	38,068	30,645	6,980	10,549
Accrued benefit obligation, end of year	384,343	317,978	52,462	40,862
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	289,480	235,798	–	–
Actual return on plan assets	24,941	32,753	–	–
Contributions by corporation	17,268	23,617	813	–
Contributions by employees	4,031	4,013	–	–
Benefits paid	(8,156)	(6,701)	(813)	–
Fair value of plan assets, end of year	327,564	289,480	–	–
Funded status – plan deficit	(56,779)	(28,498)	(52,462)	(40,862)
Unamortized past service cost	1,132	1,257	17	21
Unamortized net actuarial loss	88,360	57,679	12,586	5,717
Contributions by corporation after December 31	13,464	3,477	–	–
Accrued benefit assets (liabilities), end of year	$ 46,177 (a)	$ 33,915 (a)	$ (39,859) (b)	$ (35,124) (b)

(a) Recorded in other assets.
(b) Recorded in other liabilities.

Plans with accrued benefit obligations in excess of plan assets

($ thousands)	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
Accrued benefit obligation	$ 359,240	$ 295,988	$ 52,462	$ 40,862
Fair value of plan assets	302,419	264,442	–	–
Funded status – plan deficit	$ (56,821)	$ (31,546)	$ (52,462)	$ (40,862)

Defined benefit costs

($ thousands)		2011 Pension benefits		2010 Pension benefits		2011 Other benefits		2010 Other benefits
Defined benefit costs								
Current service cost	$	12,814	$	9,672	$	2,837	$	1,850
Interest cost on benefit obligation		19,843		17,703		2,596		1,857
Actual return on plan assets		(24,941)		(32,753)		–		–
Actuarial loss		38,068		30,645		6,980		10,549
Costs arising in period		45,784		25,267		12,413		14,256
Adjustments for difference between costs arising in period and costs recognized in period								
Return on plan assets		4,743 (a)		16,269 (a)		–		–
Actuarial loss		(35,424) (b)		(28,654) (b)		(6,869) (c)		(10,837) (c)
Past service cost		125		125		4		4
Defined benefit costs recognized	$	15,228	$	13,007	$	5,548	$	3,423

(a) Expected return on plan assets of $(20,198) [2010 – $(16,484)] less the actual return on plan assets of $(24,941) [2010 – $(32,753)] = $4,743 [2010 – $16,269].

(b) Actuarial loss recognized for year of $2,644 [2010 – $1,991] less actual actuarial loss on accrued benefit obligation for year of $38,068 [2010 – $30,645] = $(35,424) [2010 – $(28,654)].

(c) Actuarial loss (gain) recognized for year of $111 [2010 – $(288)] less actual actuarial loss on accrued benefit obligation for year of $6,980 [2010 – $10,549] = $(6,869) [2010 – $(10,837)].

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2011 Pension benefits	2010 Pension benefits	2011 Other benefits	2010 Other benefits
Accrued benefit obligation as at December 31				
Discount rate	5.25%	6.00%	5.25%	6.00%
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%
Defined benefit costs for year ended December 31				
Discount rate	6.00%	6.50%	6.00%	6.50%
Expected long-term rate of return on plan assets	7.00/3.75% (a)	7.00/3.75% (a)	–	–
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%

(a) Registered pension plan/supplemental plans, respectively.

Assumed health care cost trend rates are as follows:

	2011	2010
Extended health care and dental care cost escalation		
Initial rate	9.00%	9.00%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2020	2020

Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the pension and other benefit costs are as follows:

($ thousands)		Pension benefits		Other benefits
1% decrease in expected long-term rate of return on assets				
Net benefit cost	$	3,070	$	-
1% decrease in discount rate				
Total of service and interest costs		5,068		1,380
Accrued benefit obligation		81,568		11,931
0.25% increase in rate of increase of future compensation				
Total of service and interest costs		585		30
Accrued benefit obligation		3,758		191
Assumed overall health care cost trend rates on aggregate of service and interest cost components for period				
Impact of: 1% increase		-		1,184
1% decrease		-		(869)
Assumed overall health care cost trend rates on accrued benefit obligation				
Impact of: 1% increase		-		9,499
1% decrease		-		(7,174)

Plan assets

The percentages of plan assets based on market values at the most recent actuarial valuation are as follows:

	2011	2010
Equity securities	66.0%	63.0%
Debt securities	32.1%	33.9%
Other	1.9%	3.1%
	100.0%	100.0%

Defined contribution plans

The cost of the defined contribution plans are recorded based on the contributions in the current year and are included in administration expenses. For the year ended March 31, 2011, the expense was $3.8 million (2010 – $3.9 million).

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plan, were $32.5 million (2010 – $29.6 million).

Total cash payments for employee future benefits for 2012, as described in the preceding paragraph, are anticipated to be approximately $20.6 million.

15. Borrowings

Short-term debt

($ thousands)	2011	2010
Government of Canada debt	$ 7,609,397	$ 8,512,931
Retail and institutional notes	363,281	232,708
Promissory notes	57,242	64,768
	$ 8,029,920	$ 8,810,407

Government of Canada debt

($ thousands)	2011	2010
Floating-rate borrowings	$ 4,586,281	$ 2,403,198
Fixed-rate borrowings	3,023,116	6,109,733
	$ 7,609,397	$ 8,512,931

Retail and institutional notes

($ thousands)	2011	2010
Fixed-rate notes	$ 363,281	$ 232,708

Short-term debt by currency

($ thousands)	2011	2010
Canadian dollars	$ 7,972,678	$ 8,745,639
United States dollars (1)	57,242	64,768
	$ 8,029,920	$ 8,810,407

(1) $58.9 million USD (2010 – $63.8 million USD).

Short-term debt by final maturity date and yield

($ thousands)	From 0 – 3 months	From 4 – 6 months	From 7 – 9 months	From 10 – 12 months	2011	2010
Government of Canada						
Carrying value	$ 5,032,054	$ 731,410	$ 770,667	$ 1,075,266	$ 7,609,397	$ 8,512,931
Yield	1.05%	0.99%	0.94%	0.92%		
Capital markets						
Carrying value	199,489	34,848	–	186,186	420,523	297,476
Yield	2.84%	4.56%	–	4.16%		
	$ 5,231,543	$ 766,258	$ 770,667	$ 1,261,452	$ 8,029,920	$ 8,810,407

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2010 – $30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2011, there were no draws on this facility (2010 – nil).

Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

Long-term debt

($ thousands)	2011	2010
Government of Canada debt	$ 10,049,888	$ 7,481,354
Retail and institutional notes	865,983	1,440,910
Structured notes	6,128	26,500
	$ 10,921,999	$ 8,948,764

Government of Canada debt

($ thousands)	2011	2010
Floating-rate borrowings	$ 8,492,505	$ 5,561,716
Fixed-rate borrowings	1,557,383	1,919,638
	$ 10,049,888	$ 7,481,354

Retail and institutional notes

($ thousands)	2011	2010
Fixed-rate notes	$ 445,287	$ 814,765
Floating-rate notes	420,696	626,145
	$ 865,983	$ 1,440,910

Structured notes

($ thousands)	2011	2010
Double-up coupon	$ 5,861	$ 6,179
Index-linked notes	267	276
Dual currency notes	–	11,768
Reverse floating-rate note	–	8,277
	$ 6,128	$ 26,500

The redemption of structured notes is controllable by the corporation. At the inception of a structured note, derivative swap agreements are entered into concurrently to economically hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem a structured note if the swap counterparty exercises its right to terminate the related derivative swap agreement. These derivative contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has in substance created floating-rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed-rate interest and pays floating-rate interest, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit exposure on derivative financial instruments is further discussed in Note 24.

The amount the corporation is contractually required to pay on structured notes at maturity is $5.2 million, a $0.8-million difference from its carrying value. The fair value change in structured notes attributable to changes in the corporation's credit risk in the current year is $0.3 million and cumulatively, measured from the later of April 1, 2007 or the initial recognition of the structured notes, is $0.2 million. The change in fair value attributable to changes in the corporation's credit risk has been calculated by using the Government of Canada Agency Curve as a proxy for the credit risk of the corporation. Using reasonable possible alternative assumptions for valuing structured notes would not have a material effect on the corporation's financial position or earnings.

Long-term debt by currency

($ thousands)	2011	2010
Canadian dollars	$ 10,921,999	$ 8,928,719
Japanese yen (1)	-	20,045
	$ 10,921,999	$ 8,948,764

(1) ¥0 billion JPY (2010 – ¥1.9 billion JPY).

Long-term debt by final maturity date and yield

($ thousands)	From 1 – 2 years	From 2 – 3 years	From 3 – 4 years	From 4 – 5 years	Over 5 years	2011	2010
Government of Canada							
Carrying value	$ 3,370,598	$ 3,180,427	$ 2,570,992	$ 700,936	$ 226,935	$ 10,049,888	$ 7,481,354
Yield	1.22%	1.23%	0.99%	1.39%	2.73%		
Capital Markets							
Carrying value	244,625	152,273	-	107,951	367,262	872,111	1,467,410
Yield	4.15%	4.37%	-	4.37%	4.35%		
	$ 3,615,223	$ 3,332,700	$ 2,570,992	$ 808,887	$ 594,197	$ 10,921,999	$ 8,948,764

16. Other liabilities

($ thousands)	2011	2010 Restated (Note 3)
Transition loan liabilities	$ 84,245	$ 83,182
Accrued benefit liability – other benefits (Note 14)	39,859	35,124
Reserve for insurance claims	6,970	4,412
Deferred revenues	2,212	2,201
Other	842	1,720
	$ 134,128	$ 126,639

17. Net interest income

($ thousands)		2011		2010
Interest income				
Loans and receivables	$	918,127	$	795,604
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income		21,060		16,896
Temporary investments designated as AFS		7,964		2,369
Venture capital investments designated as HFT		881		2,103
Operating leases		711		414
Other venture capital investments		687		1,397
Finance leases		199		85
Foreign exchange loss on loans and receivables		(2,979)		(15,539)
Total interest income		946,650		803,329
Interest expense				
Long-term borrowings classified as other liabilities		206,163		244,897
Short-term borrowings classified as other liabilities		31,265		12,691
Borrowings designated as HFT		531		1,726
Derivative assets and liabilities designated as HFT (net)		(233)		(1,317)
Foreign exchange gain on short-term borrowings classified as other liabilities (net)		(3,026)		(15,374)
Hedging derivative assets and liabilities designated as cash flow hedges (net)		(26,544)		(49,173)
Total interest expense		208,156		193,450
Net interest income	$	738,494	$	609,879

The total net fee income (expense) that is recognized immediately in net interest income arising from financial assets and liabilities not classified as held for trading is $1.9 million (2010 – $(1.3) million).

18. Administration expenses

($ thousands)		2011		2010
Personnel	$	160,575	$	156,515
Facilities, software and equipment		47,053		39,667
Professional fees		30,540		29,616
Travel and training		14,306		13,044
Marketing and promotion		9,461		9,669
Other		8,866		6,654
	$	270,801	$	255,165

19. Fair value adjustment

($ thousands)		2011		2010
Ineffectiveness of cash flow hedges	$	3,987	$	11,541
Derivative assets and liabilities designated as HFT		2,936		(10,809)
Guarantees		87		(22)
Venture capital investments designated as HFT		(336)		158
Other venture capital investments held at fair value		(820)		(4,186)
Long-term debt designated as HFT		(2,408)		9,886
	$	3,446	$	6,568

20. Fair value of financial instruments

Financial instruments carried at fair value

The corporation follows a three-level fair value hierarchy to categorize the inputs used to measure fair value. Level 1 is based on quoted prices in active markets, Level 2 incorporates models using inputs other than quoted prices and Level 3 incorporates models using inputs that are not based on observable market data. Details of the valuation methodologies applied and assumptions used in determining fair value are provided in Note 2.

Valuation hierarchy

The following tables categorize the inputs used in the valuation of financial instruments carried at fair value:

	2011			
($ thousands)	Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 284,162	$ –	$ 284,162
Derivative assets	–	46,483	924	47,407
FCC Fund venture capital investments	78	–	9,055	9,133
Avrio Fund venture capital investments	1,800	–	37,505	39,305
	$ 1,878	$ 330,645	$ 47,484	$ 380,007
Liabilities				
Derivative liabilities	$ –	$ 4,724	$ –	$ 4,724
Structured notes	–	–	6,128	6,128
	$ –	$ 4,724	$ 6,128	$ 10,852

	2010			
($ thousands)	Level 1	Level 2	Level 3	Total
Assets				
Temporary investments	$ –	$ 199,818	$ –	$ 199,818
Derivative assets	–	65,585	1,360	66,945
FCC Fund venture capital investments	204	–	22,868	23,072
Avrio Fund venture capital investments	1,900	–	27,042	28,942
	$ 2,104	$ 265,403	$ 51,270	$ 318,777
Liabilities				
Derivative liabilities	$ –	$ 4,591	$ 2,252	$ 6,843
Structured notes	–	–	26,500	26,500
	$ –	$ 4,591	$ 28,752	$ 33,343

Level 3 financial instruments

The following tables summarize the fair value and other changes to financial instruments included in the Level 3 valuation hierarchy that occurred during the year. There have been no transfers between Level 1 and Level 2 during the current fiscal year.

	2011				
($ thousands)	Derivative assets and liabilities	FCC Fund venture capital investments	Avrio Fund venture capital investments	Structured notes	Total
Balance, beginning of year	$ (892)	$ 22,868	$ 27,042	$ (26,500)	$ 22,518
Total gains (losses) recognized in fair value adjustment (1)	1,897	(212)	(720)	(2,408)	(1,443)
Change in accrued interest	(81)	(520)	247	76	(278)
Acquisitions	–	–	10,936	–	10,936
Repayments	–	(13,081)	–	22,704	9,623
Balance, end of year	$ 924	$ 9,055	$ 37,505	$ (6,128)	$ 41,356

(1) Net unrealized losses relating to instruments still held at the reporting date recognized in the fair value adjustment amount to $2.2 million.

	2010				
($ thousands)	Derivative assets and liabilities	FCC Fund venture capital investments	Avrio Fund venture capital investments	Structured notes	Total
Balance, beginning of year	$ 11,634	$ 30,838	$ 22,236	$ (241,018)	$ (176,310)
Total (losses) gains recognized in fair value adjustment (1)	(10,538)	734	(4,186)	(9,886)	(23,876)
Change in accrued interest	(1,988)	(302)	(120)	–	(2,410)
Acquisitions	–	290	9,112	–	9,402
Repayments	–	(8,692)	–	224,404	215,712
Balance, end of year	$ (892)	$ 22,868	$ 27,042	$ (26,500)	$ 22,518

(1) Net unrealized gains relating to instruments still held at the reporting date recognized in the fair value adjustment amount to $1.9 million.

Financial instruments not carried at fair value

The estimated fair value of the corporation's financial instruments that do not approximate carrying values in the financial statements, using methods and assumptions described below, are as follows:

	2011		2010 Restated (Note 3)	
($ thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Loans receivable – net	$ 20,748,432	$ 20,930,067	$ 19,159,940	$ 19,358,250
Finance leases receivable – net	4,912	4,942	2,827	2,852
Venture capital investments – significant influence	9,586	23,215	7,973	15,181
Liabilities				
Long-term debt excluding structured notes	10,915,871	10,998,293	8,922,264	9,021,227

The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses related to loans receivable is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.

The estimated fair value for the finance leases receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The general component of the allowance for credit losses related to finance leases receivable is subtracted from the estimated fair value of the finance leases receivable.

Venture capital investments in shares of privately held companies under significant influence are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. Estimated fair value for venture capital debt investments under significant influence is calculated by discounting contractual cash flows at interest rates prevailing at year-end with equivalent terms to maturity.

Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity, or by utilizing quoted market prices where available.

For all other financial instruments carried at amortized cost, the carrying value is assumed to approximate fair value due to the relatively short period to maturity of these instruments. This applies to cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other assets, short-term debt and other liabilities.

21. Commitments, guarantees and contingent liabilities

Loan and venture capital commitments

As at March 31, 2011, loans approved but undisbursed amounted to $2,821.8 million (2010 – $2,720.9 million). These loans were approved at an average interest rate of 4.25% (2010 – 3.56%) and do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. These outstanding commitments do not generate liquidity risk to the corporation because it has sufficient funds available from the Government of Canada to meet its future cash requirements. The Government of Canada makes short-term and long-term funding available to the corporation through the Crown Borrowing Program. As at March 31, 2011, the corporation did not have any venture capital investments that were approved but undisbursed (2010 – nil).

Operating commitments

Future minimum payments by fiscal year on technology services and operating leases are due as follows:

($ thousands)

Amounts due		
Within 1 year	$	23,591
From 1 – 2 years		14,164
From 2 – 3 years		12,613
From 3 – 4 years		8,283
From 4 – 5 years		3,855
Over 5 years		5,837
	$	68,343

Guarantees

In the normal course of its business, the corporation issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2011, is $2.5 million (2010 – $3.7 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing items will expire within three years, usually without being drawn upon. As at March 31, 2011, the amount recorded in other liabilities for these letters of credit was nil (2010 – $0.1 million).

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against the corporation. No amount has been included in the consolidated financial statements as at March 31, 2011, for these contingent liabilities as management does not expect the outcome to have a significant effect on the financial statements.

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements, and in certain circumstances may require that the corporation compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications. No amount has been included in the consolidated financial statements as at March 31, 2011, for these indemnifications.

22. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Items included in the consolidated financial statements are as follows:

($ thousands)	2011	2010
Loans receivable	$ 10	$ –
Accounts payable	265	56
Short-term debt	7,609,397	8,512,930
Long-term debt	10,049,888	7,481,354
Interest income	66	-
Interest expense	155,800	89,643
Provision for credit losses	631	6,153
Administration expenses	5,913	5,355
Dividend	18,500	18,600

The Government of Canada guarantees the borrowings of the corporation.

The corporation enters into certain loans with customers whereby the Government of Canada subsidizes the total interest due on the respective loans for an 18-month period. Accrued interest receivable and interest income on these loans is recorded in loans receivable and interest income, respectively.

The corporation enters into short-term and long-term borrowings with the Government of Canada through the Crown Borrowing Program. Interest accrued and incurred on these borrowings is recorded in accrued interest on borrowings and interest expense, respectively.

The corporation receives government assistance to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded in provision for credit losses. The amount estimated to be returned to the Government of Canada is recorded in long-term debt as detailed in Note 2.

The corporation pays numerous other administrative business costs to Government of Canada departments, agencies and Crown corporations, which are included in administrative expenses. The balance outstanding at year-end related to these costs is included in accounts payable.

The corporation pays a dividend to the Government of Canada on an annual basis, as detailed in Note 23.

23. Capital management

The corporation's objectives when managing capital are:

- to generate a sufficient rate of return from operations to remain financially self-sustaining and to fund growth and strategic initiatives.
- to have the capability to withstand market fluctuations intrinsic to the agriculture industry while continuing to support its customers through all economic cycles.
- to comply with its external covenant imposed by the Farm Credit Canada Act that restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times its equity with the prior approval of the Governor-in-Council.

There has been no change to the corporation's objectives, policies or procedures for managing capital from the prior year.

The capital of the corporation consists of allowance for credit losses, contributed surplus, retained earnings and AOCI. One of the measures that the corporation reviews is the percentage of assets not requiring borrowings. The corporation's level of capitalization and the percentage of gross assets not requiring borrowings are as follows:

($ thousands)	2011	2010 Restated (Note 3)
Allowance for credit losses	$ 586,188	$ 610,465
Contributed surplus	547,725	547,725
Retained earnings	2,025,725	1,584,266
Accumulated other comprehensive income	181,804	203,603
Non-controlling interest in variable interest entity	13,376	9,461
Total capitalization	$ 3,354,818	$ 2,955,520
Gross assets	$ 22,496,245	$ 20,896,792
Capitalization as a percentage of gross assets	14.91%	14.14%

Limits on borrowing

As at March 31, 2011, the corporation's total direct and contingent liabilities were 7.4 times the shareholder's equity, excluding AOCI (2010 – 8.4 times the shareholder's equity, excluding AOCI), which was within the limit established by the Farm Credit Canada Act.

Contributed surplus

Contributed surplus of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998, reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2011, capital payments received from the Government of Canada amounted to $1,208.3 million (2010 – $1,208.3 million). The statutory limit for that same period was $1,250.0 million (2010 – $1,250.0 million).

Dividend

On August 18, 2010, the corporation's Board of Directors declared a dividend based on the results of the year ended March 31, 2010, in the amount of $18.5 million (2010 – $18.6 million based on the year ended March 31, 2009) to the corporation's shareholder, the Government of Canada, which was paid on March 16, 2011.

24. Risk management

Risk governance

The corporation has established a governance framework that includes a number of policies and committees to guide corporate decision-making. The Board of Directors provides oversight for this internal corporate governance framework. The committees are responsible for developing and monitoring aspects of the corporation's overall risk management policies, processes and practices. Internal committees report regularly through the CEO and the Executive Management Team (EMT) as required, or to the Board of Directors, most often through the Board of Directors' Audit Committee, Human Resources Committee and Corporate Governance Committee.

The Audit Committee assists the Board of Directors in fulfilling its responsibilities by ensuring management has identified key risks and has put in place policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining major risk areas and corresponding risk management measures implemented to provide assurance that the corporation is effectively managing risk.

Financial risk management

The corporation has identified the major categories of financial risk to which it is exposed as being credit risk and market risk.

a) Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to the corporation. Credit risk on loans is the most significant risk that the corporation faces.

Management of credit risk

The Board of Directors has overall responsibility for the management of credit risk and relies on a number of divisions and committees to effectively manage credit risk that impacts the corporation.

Portfolio and Credit Risk conducts industry, economic and portfolio analysis and reports to the various risk committees, including the Audit Committee. A number of areas within this division are involved in managing credit risk at the corporation. They include:

- Portfolio Analysis and Modelling is responsible for management, design and development of lending and credit risk-related models, lending scorecards and tools and makes recommendations to the Asset Liability Committee to ensure these models, scorecards and tools appropriately balance risk mitigation, growth and profitability.
- Credit Policy and Process Management is responsible for management of the corporation's credit policies and makes recommendations to the Credit Policy Committee to ensure there is an appropriate balance between risk mitigation, profitability and growth. It also reviews, enhances and clarifies credit policies and communicates policy changes to staff. Credit Policy and Process Management provides ongoing interpretation of policy in relation to general and specific lending situations.
- Credit Risk manages risk for larger loans as well as loans above established risk thresholds. It is responsible for credit-related delegation of authorities, credit education, coaching and credit authorization. Special Credit is a function within Credit Risk that manages and resolves higher-risk accounts experiencing challenges through intensive management of accounts, arrears collection and recovery actions.
- Corporate Credit is responsible for credit education, coaching and credit authorization for larger loan applications, including Credit Committee recommendations.
- Valuation researches land sales, maintains benchmark data on land values and appraises the value of the corporation's security with particular emphasis on specialized enterprises and agribusinesses.

Operations is delegated authorities over lending and is responsible for managing credit risk on loans in its portfolio. Authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. The division monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.

Treasury is responsible for managing counterparty credit risk related to derivative and investment activities. The division reviews counterparty credit rating actions and financial performance.

The following committees are involved in the management of credit risk at the corporation:

- Asset Liability Committee (ALCO) directs the asset/liability management function, including the establishment and maintenance of portfolio risk management policies and procedures, loan pricing direction, integration with corporate strategies and achievement of portfolio return targets.
- Credit Policy Committee oversees the development of lending policies and ensures they reflect the corporation's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.
- Credit Committee reviews and makes lending decisions on loan applications in excess of prescribed limits.
- Venture Capital Investment Committee adjudicates investment recommendations and reviews the performance of FCC Fund venture capital investments.

Measurement of credit risk

Portfolio and Credit Risk assesses credit risk at the aggregate level, providing risk policies and assessment tools and models that quantify credit risk and allowance for credit losses. The division also monitors the agriculture and agri-food operating environments to ensure the corporation's lending policies, activities and prices are appropriate and relevant.

Policies, processes, systems and strategies are used to manage credit risk of the corporation's portfolio. Each year, Portfolio and Credit Risk presents a comprehensive portfolio vision that summarizes many of these tools, models and strategies to the Board of Directors for approval. Numeric targets associated with many of these tools are set annually to assist in achieving the portfolio vision.

Significant research, modelling, validation and interpretation are used to determine the targets for each tool as follows:

Economic capital

The corporation monitors available capital less credit economic capital requirements. Economic Capital models are widely used by financial institutions to measure loan portfolio risk, and are considered best practice by the International Association of Credit Portfolio Managers. The main benefits of an Economic Capital model are to:

- measure transaction, concentration and correlation risk
- stress test the loan portfolio to estimate losses with a certain level of probability
- measure trends over time
- allow for risk-adjusted comparisons of geographic areas and business lines

Portfolio diversification plan

The portfolio diversification plan outlines the desired range for portfolio composition in five years, including diversification across enterprises, geographical areas and business lines. The desired range is evaluated against other realistically achievable scenarios considering growth, profit, risk and market share impacts.

In addition, each year, the portfolio vision also establishes customer exposure limits and approval authorities.

Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for loans in the corporation's portfolio. Risk ranking is based on customer, loan and enterprise characteristics, and generates scores ranging from 400 to 999 points. Each score translates into a probability of default. The higher the score, the lower the probability of default. RSPS is also used to price loans.

RSPS scores are based on inputs that are categorized under four main themes:

- customer credit rating and historical payment performance
- customer financial ratios
- customer business experience
- customer primary enterprise

RSPS weights each characteristic differently to arrive at the final RSPS score. These weightings are based on the corporation's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

The target risk score for the corporation's portfolio for new lending is 770. The portfolio's current risk score for new lending is 803 (2010 – 781) and the portfolio's overall risk score is 803 (2010 – 800).

Loan loss model

The loan loss model estimates the losses within the portfolio due to credit risk. There are two components to the loan loss model: specific and general. The specific loan losses are determined for non-performing loans that have met both of the following criteria:

- greater than $500 in arrears for 90 days or more
- security insufficient to fully recover amounts outstanding

General loan losses are calculated losses on loans within the portfolio that have met at least one of three indicators of impairment:

- arrears of $500 or greater but not more than 90 days
- an adjustment to the terms of the loan in the past year
- a drop in the RSPS risk score of 15 or more points in the past year

The general allowance is also based on those losses that have been incurred but have not yet exhibited evidence of the loss. Based on historical experience, there is an emergence period of when impairment occurs to when it becomes evident in the portfolio. From the emergence period, migration rates are used to determine incurred losses within the portfolio that are not yet evident. For all components of the loss model, the model considers the security position to estimate the appropriate amount of loss allowance.

On a monthly basis, ALCO is provided with a report that illustrates various measures of the loan portfolio's credit risk on an overall basis, by industry enterprise and by business line. Macro measures that demonstrate the health of the portfolio are as follows:

	2011	2010
Weighted-average loan-to-security ratio for secured portfolio	57.8%	57.6%
Unsecured portfolio as a percentage of total owing	2.3%	2.6%
Arrears as a percentage of total owing	2.1%	2.5%
Portfolio adjusted over past 12 months as a percentage of total owing	5.8%	4.2%

Collateral

The corporation mitigates its credit risk by employing policies and practices in terms of collateral requirements. Credit policy establishes collateral guidelines and standards. The corporation monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets at intervals prescribed by policy. The form of collateral obtained is generally real estate, quotas or equipment, depending on the purpose of the loan.

Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk, the corporation is potentially exposed to loss in an amount equal to the total unused commitments. See Note 21 for further details regarding the corporation's loan commitments.

Maximum exposure to credit risk before collateral held or other credit enhancements

($ thousands)	2011	2010 Restated (Note 3)
On-balance sheet assets		
Temporary investments	$ 284,162	$ 199,818
Accounts receivable	12,676	32,802
Derivative assets	47,407	66,945
Loans receivable	20,748,432	19,159,940
Finance leases receivable	4,912	2,827
Venture capital investments	58,024	59,987
Other assets	3,651	3,226
Off-balance sheet assets		
Financial guarantees	2,513	3,703
Loan commitments	2,821,811	2,720,946
	$ 23,983,588	$ 22,250,194

The preceding table represents a worst-case scenario of credit risk exposure to the corporation at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out are based on net carrying amounts as reported in the balance sheet. For off-balance sheet items, the exposure is based upon the maximum amount that the corporation would have to pay if the item was called upon.

Loans receivable

Loans receivable in arrears but not impaired

A loan is considered to be in arrears when a customer has not made a payment by the contractual due date and the amount owing is greater than $500, with the exception of loans that have matured and were current with their payments on the maturity date. Loans less than 90 days in arrears are not considered impaired, unless other information is available to the contrary. As well, loans in arrears are not considered impaired if there is adequate security and collection efforts are reasonably expected to result in full repayment. The longer that the customer is in arrears and interest continues to accrue, the greater the risk that the recoverable amount from the security value is less than the carrying amount of the loan. Gross amounts of loans that were in arrears but not impaired were as follows:

($ thousands)	2011	2010
In arrears but not impaired		
Up to 30 days	$ 72,472	$ 74,278
31 – 60 days	90,864	102,277
61 – 89 days	62,339	48,531
90 days or more	91,106	118,213
	$ 316,781	$ 343,299

Loans receivable neither in arrears nor impaired

The credit quality of loans that were neither in arrears nor impaired can be assessed by reference to the corporation's RSPS scores. Total owing for each RSPS score bucket as a percentage of total owing that is neither in arrears nor impaired is as follows:

	2011	2010
RSPS score		
400 – 650	1.1%	1.3%
651 – 769	18.7%	20.4%
770 – 850	61.6%	59.5%
851 – 999	18.6%	18.8%
	100.0%	100.0%

The majority of the RSPS scores are updated on a monthly basis. For certain types of loans, different approval and credit management processes are used and these represent less than 1.0% of the corporation's total portfolio.

Renegotiated loans receivable

Renegotiating activities include payment schedule adjustments and deferred payment options. Renegotiated loans that would otherwise be in arrears or impaired are $1,247.2 million (2010 – $826.7 million).

Real estate property acquired

During 2011, the corporation acquired real estate property from customers in settlement of loan commitments with a carrying value of $2.2 million (2010 – $2.0 million). Real estate property acquired is sold as soon as practicable, with the proceeds used to reduce the outstanding customer loan balance.

Counterparty credit risk – derivatives and temporary investments

Credit risk arises from the potential for a counterparty to default on its contractual obligation to the corporation. To mitigate this risk, the corporation complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies. Counterparty credit risk is managed via the corporation's Board-approved counterparty credit risk guidelines, which specify the maximum exposure that the corporation will accept for each level of credit rating.

In the normal course of business, the corporation receives collateral on certain transactions to reduce its exposure to counterparty credit risk. The corporation is normally permitted to sell, dispose, invest or re-pledge the collateral it receives under terms that are common and customary to standard derivative activities.

The counterparty derivative obligation may arise when market-related currency and interest factors change, resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments. The corporation is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. Credit Support Annex (CSA) documentation is also in place with most of the corporation's counterparties. These agreements are addendums to existing ISDA documentation and further specify the conditions for providing the corporation with collateral in the event that the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (Standard & Poor's, Moody's or DBRS). See Note 5 and Note 15 for the quantification of counterparty credit risk.

ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for temporary investments and limits the size and composition of the total investment portfolio. For temporary investment activity with term to maturity equal to or less than one year, counterparties must have a minimum short-term credit rating of A1+/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

The corporation has controls and policies in place to protect against and minimize loss due to counterparty default. The Treasury division reviews credit ratings and counterparty financial performance regularly and recommends policy changes to ALCO and the Board of Directors.

Venture capital debt investments

The corporation is exposed to credit risk through its venture capital debt investments. The corporation manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with investment policies. The Investment Manager monitors and reports on the financial condition of investee companies regularly.

b) Market risk

Market risk is the potential for financial loss to the corporation as a result of adverse changes in underlying market factors, such as interest rates and foreign exchange rates associated with investments, and the corporation's exposure to liquidity risk.

The corporation has market risk policies and limits to ensure exposures to interest rate, foreign exchange and liquidity risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by ALCO and are approved by the Board of Directors. The corporation's policies and processes are based on industry best practices and the *Minister of Finance Financial Risk Management Guidelines for Crown Corporations*. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and the Board of Directors on its activities and asset/liability position.

Interest rate risk

Interest rate risk is the risk that a change in interest rate adversely impacts the corporation's net interest income and economic value. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and re-pricing dates, residual assets funded by equity and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed-rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

Exposure to interest rate risk is monitored primarily through an asset/liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and market values to changes in interest rates and balance sheet assumptions. The asset/liability model is back-tested and validated to ensure that the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management is governed by policy, which has defined limits based on the impact of a 2.0% change in interest rates. The defined limit for variability of net interest income is that for the next 12-month period, net interest income should not decline by more than 10.0%. The second defined limit is that the market value of portfolio equity should not decline by more than 10.0% of total equity (excluding accumulated other comprehensive income) for a 2.0% immediate and sustained change in the level and term structure of interest rates. Based on the corporation's financial position as at March 31, 2011, assuming an immediate and sustained 2.0% change in interest rates occurs across all maturities and curves, net interest income and the market value of portfolio equity would be affected over the next 12 months as follows:

	2011		2010	
	Impact of		Impact of	
($ thousands)	2% increase	0.85% decrease (1)	2% increase	0.25% decrease (1)
Net interest income variability	$ 5,919	$ (2,674)	$ 7,692	$ (1,013)
Limit	78,922	(78,922)	73,972	(73,972)
Market value of portfolio equity variability	(188,100)	80,600	(145,047)	18,668
Limit	(257,344)	257,344	(213,199)	213,199

(1) The lowest rate on the yield curves used in the model was 0.85% (2010 – 0.25%) to avoid using negative rates.

The corporation has a third defined limit that addresses its exposure to commitment risk. Commitment risk is the risk that interest rates rise after the corporation has committed to a lower interest rate to the customer. The policy states that the decline in the market value of the interest guarantees on new loans and renewals cannot exceed 0.5% of total equity (excluding accumulated other comprehensive income) for a 0.5% increase in rates. The net decrease in market value of undisbursed loans if there was a 0.5% rate increase was $2.5 million as at March 31, 2011 (2010 – $2.8 million), which was within the policy limit of $10.1 million (2010 – $10.7 million).

The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, and liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates and interest rate sensitivity. In the normal course of business, loan customers frequently prepay their loans in part or in full prior to the contractual maturity date.

($ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest-sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 583,738	$ –	$ –	$ –	$ 18,102	$ 601,840
Yield (1)	–	1.08%	–	–	–	–	
Temporary investments	–	284,155	–	–	–	7	284,162
Yield (1)	–	1.12%	–	–	–	–	
Derivative assets (3)	–	–	–	–	–	47,407	47,407
Loans receivable – net	14,379,174	722,171	1,244,422	3,979,077	748,647	(325,059)	20,748,432
Yield (1)	3.91%	6.34%	5.90%	5.70%	6.10%	–	
Finance leases receivable – net	–	224	1,152	3,620	–	(84)	4,912
Yield (1)	–	5.78%	5.78%	5.78%	–	–	
Venture capital investments	2,377	93	1,985	9,098	–	44,471	58,024
Yield (1)	10.50%	20.00%	10.00%	10.65%	–	–	
Other	–	–	–	–	–	165,280	165,280
Total assets	**$ 14,381,551**	**$ 1,590,381**	**$ 1,247,559**	**$ 3,991,795**	**$ 748,647**	**$ (49,876)**	**$ 21,910,057**
Liabilities and equity							
Non-structured borrowings	$ –	$ 16,247,409	$ 329,967	$ 1,808,275	$ 512,371	$ 47,769	$ 18,945,791
Yield (1)	–	0.96%	3.49%	3.31%	4.12%	–	
Structured borrowings	–	–	–	5,186	–	942	6,128
Yield (1)	–	–	–	4.60%	–	–	
Total borrowings	–	16,247,409	329,967	1,813,461	512,371	48,711	18,951,919
Derivative liabilities (2)(3)	–	1,093,578	(350,000)	(446,278)	(297,300)	4,724	4,724
Yield (1)	–	1.22%	1.37%	2.34%	4.52%	–	
Other	–	–	–	–	–	198,160	198,160
Shareholder's equity	–	–	–	–	–	2,755,254	2,755,254
Total liabilities and equity	**$ –**	**$ 17,340,987**	**$ (20,033)**	**$ 1,367,183**	**$ 215,071**	**$ 3,006,849**	**$ 21,910,057**
Total gap 2011	**$ 14,381,551**	**$(15,750,606)**	**$ 1,267,592**	**$ 2,624,612**	**$ 533,576**	**$ (3,056,725)**	**$ –**
Total cumulative gap 2011	**$ 14,381,551**	**$ (1,369,055)**	**$ (101,463)**	**$ 2,523,149**	**$ 3,056,725**	**$ –**	**$ –**
Total gap 2010	$ 12,910,440	$(13,742,619)	$ 905,970	$ 2,115,636	$ 480,209	$ (2,669,636)	$ –
Total cumulative gap 2010	$ 12,910,440	$ (832,179)	$ 73,791	$ 2,189,427	$ 2,669,636	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.

(2) Represents notional principal amounts on derivatives.

(3) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative liabilities.

Foreign exchange risk

The corporation is exposed to foreign exchange risk due to differences in the amount and timing of foreign currency denominated asset and liability cash flows. The currency exposure is minimized by matching foreign currency loans against foreign currency funding. This risk cannot be perfectly hedged, because the assets are amortizing loans and the liabilities are discount bonds, which creates timing mismatches for the principal and interest cash flows.

The corporation's policy is to mitigate foreign exchange risk. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset. The Board of Director's policy limit for the foreign currency funding to foreign currency asset hedge ratio is a range of 90% to 110%. The corporation's actual ratio as at March 31, 2011, is 98.4% (2010 – 99.0%).

Derivatives

The corporation uses derivatives to hedge interest rate and foreign exchange risk. Derivatives alter the risk profile of the balance sheet by reducing mismatches of assets and liabilities, while ensuring interest rate risk and foreign exchange risk are managed within policy limits.

When derivative transactions qualify for hedge accounting, derivatives are designated as cash flow hedges and are accounted for as described in Note 2. Derivative transactions that do not qualify for hedge accounting are still considered economic hedges. Economic hedges that do not qualify for hedge accounting may lead to net income volatility because the derivatives are recorded at fair value and this volatility may not be representative of the overall risk.

Liquidity risk

Liquidity risk is the risk that the corporation cannot meet a demand for cash or fund its obligations at a reasonable cost as they become due.

The corporation measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

The corporation maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and temporary investments of $886.0 million were on hand as at March 31, 2011 (March 31, 2010 – $827.8 million)
- access to short-term funding – the corporation's access to funding through the Crown Borrowing Program and capital markets provides the corporation with sufficient liquidity to meet daily cash requirements
- access to a $30.0-million bank operating line of credit

The following tables show the undiscounted cash flows of the corporation's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. The corporation's expected cash flows on certain instruments varies significantly from this analysis. For example, certain borrowings that may be prepaid by the corporation have not been included in their earliest possible maturities due to being impracticable to estimate.

Residual contractual maturities of financial liabilities

	2011						
($ thousands)	Carrying amount	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative liabilities							
Borrowings	$ 18,951,919	$(18,949,344)	$ (2,294,261)	$ (2,968,427)	$ (2,797,777)	$(10,303,461)	$ (585,418)
Derivative liabilities							
Carrying amount	4,724	–	–	–	–	–	–
Cash inflows	–	22,957	–	980	5,786	16,191	–
Cash outflows	–	(27,998)	–	(783)	(4,605)	(22,610)	–
	$ 18,956,643	$(18,954,385)	$ (2,294,261)	$ (2,968,230)	$ (2,796,596)	$(10,309,880)	$ (585,418)

	2010						
($ thousands)	Carrying amount	Gross nominal inflow (outflow)	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative liabilities							
Borrowings	$ 17,759,171	$(17,756,713)	$ (5,386,251)	$ (1,353,378)	$ (2,134,346)	$ (7,920,645)	$ (962,093)
Derivative liabilities							
Carrying amount	6,843	–	–	–	–	–	–
Cash inflows	–	33,408	–	99	10,200	23,109	–
Cash outflows	–	(36,773)	–	(94)	(5,126)	(31,553)	–
	$ 17,766,014	$(17,760,078)	$ (5,386,251)	$ (1,353,373)	$ (2,129,272)	$ (7,929,089)	$ (962,093)

25. Segmented information

The corporation is organized and managed as a single business segment, that being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's revenues are within Canada. No one customer comprises more than 10.0% of the corporation's loans receivable or interest revenues.

26. Comparative figures

Certain 2010 comparative figures have been reclassified to conform to the current year's presentation.

Glossary

Agribusiness and agri-food financing

Includes customers who are suppliers or processors who are selling to, buying from and otherwise serving primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Alliances

Relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses

Management's best estimate of credit losses incurred on a loan and lease receivable portfolio. Allowances are accounted for as deductions on the balance sheet from loans and leases receivable, respectively.

Arrears

All amounts that are past due by more than $500 on a loan, including impaired loans, with the exception of amounts that became due on or after the loan's maturity date.

Basis point

One hundredth of 1%, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01%).

Corporate social responsibility (CSR)

A company's commitment to operating in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment and society at large, as defined by Canadian Business for Social Responsibility.

Counterparty

The other party involved in a financial transaction, typically another financial institution.

Counterparty risk

The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating

A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Crown borrowing program

Direct lending provided to the corporation by the federal government.

Customer support program

Plans developed to proactively assist customers who may experience loan repayment difficulties due to disaster or during downturns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules.

Debt-to-equity ratio

The level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income.

Derivative financial instrument

A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

Effective interest rate method

A method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

Efficiency ratio

A measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Revenue is composed of net interest income, net insurance income and other income.

Enterprise

Specific type of agricultural operation (dairy, cash crops, beef, etc.).

Enterprise risk management

The enterprise-wide application of co-ordinated activities that direct and control an organization with respect to risk.

Fair value

The amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk.

Foreign exchange risk

The risk of financial loss due to adverse movements in foreign currencies.

Hedge

A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans

Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Interest and currency rate swaps

Contractual agreements for specified parties to exchange currencies or interest payments for a specified period of time based on notional principal amounts.

Interest expense

Expense to the corporation incurred on debt.

Interest income

Income earned on loans receivable, cash and investments.

Interest rate risk

The risk that a change in interest rates adversely impacts the corporation's net interest income and economic value.

Leverage

The relationship between total liabilities and the equity of a business.

Loan renewal rate

Percentage ratio of principal dollars renewed to principal dollars matured.

Net disbursements

Disbursements represent the release of funds against approved loans. Net disbursements exclude refinancing of existing FCC loans.

Net interest income (NII)

The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin

Net interest income expressed as a percentage of average total assets.

Notional amount

The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Other comprehensive income (OCI)

Represents gains and losses due to changes in fair value that are temporarily recorded outside of net income in a section of shareholder's equity called Accumulated Other Comprehensive Income (AOCI).

Prepayments

Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Primary production financing

Refers to customers who have loans from FCC and includes agriculture operations that produce raw commodities such as crops, beef, pork, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock. These include, but are not limited to, vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of fish, both ocean and inland) and part-time farming.

Principal not due (PND)

The principal balance owing on loans. PND is a useful measure of growth between business lines, geographic areas and enterprises. It excludes items such as arrears and interest accruals that are normally included in loans receivable.

Provision for credit losses

Charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on equity (ROE)

Net income attributable to shareholder of parent entity expressed as a percentage of total average equity excluding accumulated other comprehensive income.

Risk scoring and pricing system (RSPS)

A tool used to evaluate the type and potential impact of risks present in each loan or finance lease to ensure FCC is adequately compensated for the risk in its portfolio. The pricing component of RSPS calculates the risk price (risk adjustment), which is the portion of the loan margin required to cover the risk of loss.

Value-added

Agriculture businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agriculture commodities.

Variable interest entity

An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

Sources for agriculture facts and figures

We consulted online and print publications from the following sources to provide the fast facts about agriculture that you'll find throughout this report and on the inside front and back covers:

- Agriculture and Agri-Food Canada (www.agr.gc.ca)
- Animal Cell Technology Industrial Platform (www.actip.org)
- Beef Information Centre (www.beefinfo.org)
- Canada Pork International (www.canadapork.com)
- Canola Council of Canada (www.canolacouncil.org)
- Flax Council of Canada (www.flaxcouncil.ca)
- Ontario Agri-Food Education, Inc. (www.oafe.org)
- Statistics Canada, 2006 Census of Agriculture (www.statcan.gc.ca)

Interested in a particular fact or figure? Contact our Corporate Communication department at communications@fcc-fac.ca for full reference details.

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, LaCrete (S), Leduc, Lethbridge, Lloydminster, Medicine Hat, Olds, Red Deer, Stettler (S), Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake (S), Moose Jaw, Moosomin (S), North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard (S), Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney (S), Morden, Neepawa, Portage la Prairie, Shoal Lake (S), Steinbach, Stonewall (S), Swan River, Virden, Winnipeg

Ontario
Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, North Bay, Owen Sound, Simcoe, Stratford, Thornton, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Blainville, Drummondville, Gatineau (S), Granby, Joliette, Lévis, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, Ste-Marie, St-Hyacinthe, St-Jean-sur-Richelieu, Trois-Rivières, Victoriaville

New Brunswick
Grand Falls, Moncton, Sussex (S), Woodstock

Newfoundland and Labrador
Mount Pearl

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

Corporate Office
1800 Hamilton Street,
P.O. Box 4320
Regina SK S4P 4L3
Telephone: 306-780-8100
Fax: 306-780-5167

FCC Management Software
1800 Hamilton Street,
P.O. Box 4320
Regina SK S4P 4L3
1-800-667-7893
Telephone: 306-721-7949
Fax: 306-721-1981

FCC Ventures
1800 Hamilton Street,
P.O. Box 4320
Regina SK S4P 4L3
Telephone: 306-780-5708
Fax: 306-780-8757

Government and Industry Relations
Tower 7 Floor 10 Room 319
1341 Baseline Road
Ottawa ON K1A 0C5
Telephone: 613-773-2940
Fax: 613-960-7024

(S) Satellite office – limited hours

www.fcc.ca
csc@fcc-fac.ca

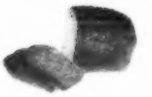
Customer toll-free number
Extended hours: 1-888-332-3301

FCC's venture capital investments are managed by:

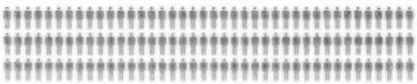
AVRIO VENTURES
www.avrioventures.com
info@avrioventures.com

Calgary
Crowfoot Business Centre
600 Crowfoot Crescent N.W., Suite 235
Calgary AB T3G 0B4
Telephone: 403-215-5490
Fax: 403-215-5495

Montreal
2500-1155 René Lévesque Blvd. W.
Montreal QC H3B 2K4
Telephone: 514-868-1079



120 The number of people an average farm in Canada can feed every day



67

MILLION HECTARES

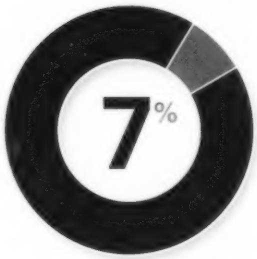
are used for farmland in Canada

1 in 6

Canadian farms has a gross income greater than $250,000

The agriculture and agri-food sector includes over

229,000 farms



The amount of Canadian land used for agriculture, the same as in 1986

Canola was developed by Canadians and generates

$14 billion

in economic activity each year

The total capital invested in an average farm today is over $1 MILLION

Farm Credit Canada
Advancing the business of agriculture

Canada